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## Multilateral trade negotiations among less developed countries: A new field for the GATT

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Corrigendum

Pages 12 - 15 (Table 4)

for page 15 read page 12

for page 14 read page 13

for page 13 read page 14

for page 12 read page 15

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Working Paper No. 102

Multilateral Trade Negotiations among  
Less Developed Countries. A New Field  
for the GATT

by  
Rolf J. Langhammer

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Multilateral Trade Negotiations among Less Developed  
Countries. A New Field for the GATT\*

Introduction

For years trade liberalization among less developed countries has been confined to regionally limited arrangements - such as the CACM, LAFTA, EAC, UDEAC, ECOWAS, ASEAN and the Andean Pact - and has thus enforced the bias towards neighbourhood trade between countries which are at the beginning of outward-looking activities. Consequently the degree of regionalization in South-South trade during the last twenty years has been high and rather stable over time: In 1977 still 66 percent of total South-South trade flows (excluding mineral oils) run intra-regionally, i.e. within the four major developing regions Latin America, Africa, Middle East, and other Asia, compared to 73 percent in 1960. During the same period the share of total South-South exports (again excluding mineral oils) in total world exports stagnated at a level of 3.3 to 3.5 percent. If regionalization and stagnation are two sides of the same issue and if the expansion of South-South trade could significantly contribute to the fulfilment of the industrial targets set under the Lima Declaration<sup>1</sup>, then attention should be paid to the few approaches of inter-regional trade liberalization, which under the old GATT provisions are only accepted by waivers to the MFN rule. The new

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\* Thanks are due to Dean Spinanger for helpful comments.

<sup>1</sup> UN, Committee for Development Planning, Economic and Social Council, Supplement No. 6, New York 1978, p. 16.

"framework for the conduct of world trade" initiated by some developing countries under the leadership of Brazil<sup>1</sup> and concluded in the Tokyo Round, however, incorporates inter-regional liberalization rounds between developing countries as a permanent legal component into the future GATT and hence may stimulate further attempts.

Up to now the GATT preferential trade agreement (GPTA) is - besides the tripartite agreement between the UAR, Yugoslavia and India<sup>2</sup> - the only inter-regional agreement which has been accepted in GATT by a waiver. Since its member countries hold a substantial share in South-South trade (1976: about 40 percent of total South-South exports in manufactures) and since it is open to other developing countries it can be conceived as the core of a global preferential trade agreement between all less developed countries which has been discussed on the various UNCTAD<sup>3</sup> Conferences since the beginning of the seventies. Its origin dates back to November 1971 when 16 developing countries<sup>4</sup> agreed in entering into negotiations on mutual tariff and trade

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<sup>1</sup> George Alvares Maciel, Brazil's Proposals for the Reform of the GATT System. The World Economy, London, Vol. 1 (1978), pp. 163-176.

<sup>2</sup> For an evaluation of the tripartite agreement see Constantine Michalopoulos, Expanding Trade among Developing Countries: The Role of Limited Preferential Arrangements. Journal of Common Market Studies, Oxford, Vol. 13 (1975), pp. 308-319.

<sup>3</sup> Cf. UNCTAD IV, Elements of a Preferential System in Trade among Developing Countries (item 14 - supporting paper) TD/192/Supp. 2, Nairobi, May 1976; UNCTAD, Economic Co-Operation among Developing Countries. Draft Resolution recommended by Negotiating Group VIII for Adoption by the Conference, TD/L.182, 2 June 1979, p. 6.

<sup>4</sup> Brazil, Chile, Egypt, Greece, India, Israel, Republic of Korea (South Korea), Mexico, Pakistan, Peru, Philippines, Spain, Tunisia, Turkey, Uruguay and Yugoslavia. See GATT, Basic Instruments and Selected Documents (BISD), 18th Supplement, 1970/71, p. 11.

concessions. For eight of them<sup>1</sup> the Protocol Relating to Trade Negotiations entered into force in February 1973; seven additional participants followed till May 1976. During 1976 and 1978 three other countries either signed the Protocol ad referendum (Paraguay) or ratified it (Bangladesh) respectively applied for accession to it (Romania)<sup>2</sup>. The Philippines, one of the sixteen signatory countries of 1971, did not complete the ratification procedure until November 1978.

#### The Tariff Cut Procedures and its Impact on the Structure of Preferential Trade

The tariff concessions procedure resembles those applied by LAFTA and ASEAN: The participating countries mutually offer and exchange own concession schedules on a "case by case" basis, where the "value" of the concessions is measured by the importance of concession items in past trade. The latter implies a bias towards trade in goods which are complements rather than substitutes to domestic production in the donor countries. This is because past inter-LDC-trade outside the regional integration schemes displays a high amount of inter-sectoral specialization supported by a protection structure which discriminates against manufactures.<sup>3</sup>

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<sup>1</sup> Brazil, India, Israel, Republic of Korea (South Korea), Pakistan, Spain, Turkey and Yugoslavia. See GATT, BISD, 23rd Supplement, 1975/76, p. 147 sqq.

<sup>2</sup> GATT, BISD, 25th Supplement, 1977/78, p. 163 sqq.

<sup>3</sup> See Bela Balassa, Intra-Industry and the Integration of Developing Countries in the World Economy. In: Herbert Giersch (Ed.), On the Economics of Intra-Industry Trade. Symposium 1978, (Tübingen; J.C.B. Mohr), 1979, pp. 245-270. The GPTA itself provides a proof, since in 1975 only 9 percent of total preferential trade referred to the BITN chapters 81-98 (manufactures) although the majority of the participating countries are semi-industrialized and in some cases successful suppliers on industrialized markets.

The "self-selection case-by-case" principle which has been adopted by the participants for trade concessions purposes first enables the exclusion of products where domestic suppliers have vested interests and second the coverage of products where only one of the participants serves as the traditional supplier.<sup>1</sup> The high share of trade in raw materials under the multilateral GPTA-regime is likely to reflect the intention of the participants to preserve and improve traditional bilateral trade flows in complementary products rather than to face domestic manufacturing production with competition from other less developed countries. Under these conditions, however, trade expansion only follows the growth of domestic demand, but does not stimulate trade creation, i.e. the preference-induced substitution of import-competing domestic production by GPTA imports.

Another aspect restricts the short-term GPTA trade effects: Tariff concessions are not always identical with tariff reductions or tariff eliminations but may be implemented also as a binding promise not to raise the tariff rate on GPTA-items in future. Chile, Israel, and the Philippines include this form of concessions in their schedules for some tariff items, which does not allow for import price incentives in South-South trade.

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<sup>1</sup> The trade flows between India and Brazil illustrate the second aspect. Brazil traditionally imports shellac from India and therefore included this raw material in its concession schedule. Hence, although the concessions apply to all members of the GPTA, India is the only beneficiary. In 1975 shellac imports from India covered 75 percent of the total Brazilian imports under the GPTA.

Taken the basis of eleven country concession schedules<sup>1</sup> table 1 reveals that the preference margin amounts to only 30 percent of the pre-concession tariffs, so that nearly 60 percent of total preferential trade in 1975 had been still subjected to a post-concession tariff higher than 15 percent. As a comparison: If the GPTA-members would have applicated the Swiss "tariff cut formula" which was accepted as a "working hypothesis" in the Tokyo Round<sup>2</sup> and by which high tariffs are overproportionately reduced, the preference margin would have been 68.1 percent<sup>3</sup> instead of actually only 29.6 percent at the average.

Since within the import tariff schedules of the 11 countries the rates escalate from intermediates to finished goods<sup>4</sup>, a linear cut of about 30 percent (table 1) does not eliminate the discrimination of imports in finished goods. Apart from the preservation of complementary trade, this may also explain the low share of finished goods in preferential trade.

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<sup>1</sup> The eleven reporting countries are Brazil, Chile, Egypt, Greece, India, Israel, Spain, South Korea, Tunisia, Turkey and Yugoslavia.

<sup>2</sup> The Swiss tariff cut formula is expressed as follows:

$$Z = \frac{ax}{x+a},$$

where Z is the post-concession rate, x the initial tariff level and a a constant term. The higher this term, the less is the tariff reduction margin.

<sup>3</sup> Under the assumption on "a" equal 14 as originally proposed in the Tokyo Round.

<sup>4</sup> This cannot be derived from table 1, as the two-digit BTN disaggregation level does not allow for the separation of raw materials, intermediates and finished goods. At the four-digit level, however, the schedules clearly reveal the escalation effect.

Table 1 - Sectoral Structure of Preferential Trade and of Tariff Concessions under the GPTA

BTN-Chapters	Products	Unweighted Average Pre-concession tariff level <sup>a</sup>	Preference margin <sup>b</sup>	Sectoral structure of preferential trade in 1975
1 - 24	Agricultural products	32.1	26.5	37.3
25 - 39	Mineral and chemical products, plastic materials and articles	25.2	31.3	28.9
40 - 49	Rubber-, leather-, paper and paperboard products	41.3	27.1	4.4
50 - 63	Textiles and textile articles	39.8	32.2	7.7
64 - 67	Footwear, headgear, etc.	- <sup>c</sup>	-	-
68 - 72	Non-metallic mineral products and precious metal products	12.0	32.5	0.1
73 - 80	Base metals and articles of base metals	22.7	36.6	12.3
81 - 98	Miscellaneous manufactured goods of base metal; machinery electrical and transport equipment; professional goods	32.9	29.2	9.3
Total		30.1	29.6	100.0 <sup>d</sup>

<sup>a</sup>Calculated on the basis of the four-digit BTN tariff items in the concession schedules of eleven reporting countries. - <sup>b</sup>In percent of the pre-concession tariff level. - <sup>c</sup>The chapters 64 - 67 have not been subject to tariff concessions. - <sup>d</sup>Eleven reporting countries.

Sources: Calculated from: Bundesanstalt für Außenhandelsinformation (BfA), Zollinformation, Zolldienst N 5.4, Köln, April 1972; GATT documents L 4412 / Add. 1, L 4412 (Third Annual Report to Contracting Parties, 1 and 16 November 1976).



In addition a highly disproportionate degree of product coverage in the individual concession schedules hampers trade expansion. Countries like South Korea, Brazil, Egypt, Israel or Mexico, whose industrial capacities could stimulate intra-industry specialization with less developed countries outside bilateral complementarity agreements, originally offered concessions only for less than 15 tariff items, among which agricultural and mineral raw materials predominated. On the other hand the amount of concessions of the Mediterranean countries Turkey, Yugoslavia and Greece ranged from 50 items (Turkey) to more than 100 items (Greece). If one regards the latter countries together with Tunisia and Spain as one (Mediterranean) region, the relatively high number of tariff items in their concession schedules underlines a tendency towards intra-regional trade in the GPTA: In 1975 about 60 percent of total preferential trade were confined to trade between these five countries (tables 2 and 3). Since nearly two-thirds of the intra-regional exchanges focused on unprocessed food (live animals, fruits), and mineral raw materials (phosphates), the structural weakness of the self-selection principle in the GPTA becomes evident: It basically encourages traditional trade between neighbours, which would have occurred without concessions anyway. The stimulation of new inter-regional trade relations between the participants, however, - the original target of the GPTA - visibly lags behind.

Table 2 - Preferential Trade between GPTA-Member Countries 1975 in BTN-Chapters 1-24 (Agricultural Products), in 1000 US-\$

Destination	Greece	Spain	Yugoslavia	Tunisia	Brazil	India	Israel	South Korea	Mexico	Pakistan <sup>a</sup>	Egypt	Turkey	Total
Origin													
Greece	-	-	5,671.0	-	-	-	-	6,434.0	-	-	-	-	12,105.0
Spain	-	-	9.0	-	8.0	-	66.0	-	10.7	-	53.5	-	147.2
Yugoslavia	231.2	-	-	3,221.1	-	-	-	4,931.0	-	-	-	-	8,383.3
Tunisia	56.0	-	194.0	-	-	-	-	-	-	-	-	-	250.0
Brazil	-	242.6	79.0	-	-	-	-	-	-	-	-	32.0	353.6
India	-	-	-	-	704.0	-	-	-	-	-	-	-	704.0
Israel	-	-	-	-	-	-	-	-	-	-	-	-	-
South Korea	-	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	-	8.8	-	-	-	-	-	-	-	-	-	-	8.8
Pakistan	-	-	-	-	-	-	-	-	-	-	-	-	-
Egypt	-	-	5,779.0	-	-	-	-	-	-	-	-	-	5,779.0
Turkey	-	-	5,390.0	-	-	-	236.0	5,721.0	-	-	-	-	11,347.0
Total	287.2	251.4	17,122.0	3,221.1	712.0	-	302.0	17,086.0	10.7	-	53.5	32.0	39,077.9

<sup>a</sup>GPTA-import statistics of Pakistan are not available.

Source: Calculated from GATT, Committee of Participating Countries. Third Annual Report to Contracting Parties, Documents, L/4412/Add.2, November 1976.

Table 3 - Preferential Trade between GPTA-Member Countries 1975 in BTN-Chapters 25-98 (Semi-Manufactures and Manufactures), in 1000 US-\$

Destination	Greece	Spain	Yugoslavia	Tunisia	Brazil	India	Israel	South Korea	Mexico	Pakistan <sup>a</sup>	Egypt	Turkey	Total
Origin													
Greece	-	35.8	9,523.0	1,542.5							73.8		11,175.1
Spain	3,301.1		1,061.0	3,284.2	197.0	100.9	800.0	1.0	2,007.6		51.7	1,417.0	12,221.5
Yugoslavia	1,700.1	107.3		33.7		460.8					319.4	511.0	3,132.3
Tunisia	2,015.2		4,062.0									20,343.0	26,420.2
Brazil	58.6	291.2	-	47.4		69.3						231.0	697.5
India	39.5	68.1	-								79.5	135.0	322.1
Israel	209.3	136.6			24.0				0.2			4,770.0	5,140.1
South Korea	14.0										3.1	18.0	35.1
Mexico	0.1	10.9	3,124.0										3,135.0
Pakistan	303.0	48.9	165.0	1,590.4								27.0	2,134.3
Egypt	-	0.5	1,079.0								52.6		1,132.1
Turkey	-		4.0										4.0
Total	7,640.9	699.3	19,018.0	6,498.2	221.0	631.0	800.0	1.0	2,007.8		580.1	27,452.0	65,549.9

<sup>a</sup>GPTA-import statistics of Pakistan are not available.

Source: Calculated from GATT, Committee of Participating Countries. Third Annual Report to Contracting Parties, Documents, L/4412/Add.2, November 1976.

Direct Trade Effects of the GPTA

The direct trade effects consist of the above-mentioned trade creation component and of trade diversion, which denotes the substitution of imports from non-GPTA-members (either less developed countries or developed and socialist countries) by imports from GPTA-members. The empirical concept draws on the usual assumption that a reduction in tariffs leads to a proportional decrease of the domestic price of imports, so that its trade creation effect in absolute terms can be assessed by multiplying the change in tariffs by the price elasticity of demand for the preferential imports and by the amount of the pre-concession imports. Foreign and domestic supply curves are assumed to be perfectly elastic.

The estimate of trade diversion is more controversial, since it requires an information on substitution elasticities between imports from beneficiaries respectively non-beneficiaries. A shifting of imports from one country to another, however, cannot be simply attributed to changes in relative prices, but may also - and perhaps predominantly - correspond to changes in tastes, product quality, new institutional ties or to supply bottlenecks in the former exporting country. These factors cannot be identified at the usual disaggregation level of international trade statistics.

A way out of this difficulty has been shown by Baldwin and Murray who assume that the elasticity of substitution between imports from beneficiaries and non-beneficiaries is equal to the substitutability between imports from beneficiaries and domestic production (trade creation).<sup>1</sup>

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<sup>1</sup> See Robert E. Baldwin and Tracy Murray, MFN Tariff Reductions and Developing Country Trade Benefits under the GSP. The Economic Journal, Cambridge, Vol. 87 (1978), p. 33.

However, if we take the consumer's demand as being more indifferent towards imports from different origin countries than towards imports and domestically produced goods, it seems to be more appropriate<sup>1</sup> to assume that the substitutability between imports from beneficiaries and domestic production equals that between imports from non-beneficiaries and domestic production. In this case trade diversion becomes trade creation weighted by the ratio between imports from non-beneficiaries to imports from beneficiaries, whereas Baldwin/Murray's weight is the ratio of imports from non-beneficiaries to domestic production.

In any case the estimates of trade creation and trade diversion crucially depend on the choice of import demand elasticities. Since such elasticities were not available for the eleven reporting GPTA-members, we transformed the BTN-preferential trade data into corresponding three-digit-ISIC-items and applied the "best" estimates of US-import demand elasticities provided by Stern et al. on this disaggregation level.<sup>2</sup> The results of the estimates (table 4) mainly indicate that

- the trade effects are highly regionally unbalanced because of the uneven product coverage in the national concession schedules

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<sup>1</sup> See the critique of Baldwin/Murray's assumption by Jaleel Ahmad, Tokyo Rounds of Trade Negotiations and the Generalised System of Preferences. The Economic Journal, Cambridge, Vol. 88 (1978), pp. 285-295.

<sup>2</sup> Robert M. Stern, Jonathan Francis and Bruce Schumacher, Price Elasticities in International Trade. An Annotated Bibliography. (London: MacMillan, 1976), p. 25.

Table 4 - Continued

Sector (3-digit ISIC) <sup>a</sup>	Total Imports of GPTA-covered Products 1973  (1)	Trade Creation <sup>b</sup>  (2)	Trade Diversion <sup>c</sup>		Total Trade Expansion  (5) = (2)+(3)+(4)
			Non-beneficiaries from LDC  (3)	Non-beneficiaries from DC and Socialist Countries  (4)	
Donor-Country: Turkey					
Agricultural and Live- stock Production (111)	55.0	-	-	8.6	8.6
Stone & Quarrying (290)	4,244.0	14.0	24.1	-	28.1
Food Products (311/2)	20,666.0	46.4	481.3	264.7	792.4
Paper and Products (341)	287.0	10.6	-	-	10.6
Industrial Chemicals (351)	9,653.0	21.5	-	664.6	686.1
Other Chemical Products (352)	597.0	-	-	28.9	28.9
Rubber Products (355)	4,939.0	37.0	-	1,807.5	1,844.5
Non-metal Products nec. (369)	30.0	2.3	-	-	2.3
Metal Products (381)	1,202.0	28.8	18.6	186.0	233.4
Machinery nec. (382)	6,853.0	3.4	-	267.7	271.1
Electrical Machinery (383)	15,699.0	23.3	-	724.9	748.2
Professional Goods (385)	1,183.0	0.6	-	56.5	57.1
Sub-Total	65,408.0	187.9	524.0	4,009.4	4,721.3
Donor-Country: Yugoslavia					
Agricultural and Live- stock Production (111)	16,779.0	165.5	147.5	-	313.0
Food Products (311/2)	35,163.0	44.2	234.8	832.9	1,111.9
Textiles (321)	10,591.0	20.3	-	269.5	289.8
Paper and Products (341)	23,003.0	-	-	303.6	303.6
Industrial Chemicals (351)	5,462.0	-	-	386.9	386.9
Other Chemical Products (352)	4,402.0	-	-	723.9	723.9
Iron and Steel (371)	82,356.0	-	61.2	4,585.6	4,646.8
Non-ferrous Metals (372)	5,454.0	-	30.9	186.9	217.8
Metal Products (381)	18,380.0	0.6	403.5	1,440.6	1,844.7
Machinery nec. (382)	6,757.0	-	-	586.1	586.1
Electrical Machinery (383)	405.0	-	-	38.1	38.1
Other Industries (390)	4,170.0	17.3	-	497.5	514.8
Sub-Total	212,922.0	247.9	877.9	9,851.6	10,977.4
T O T A L	838,035.8	1,973.3	1,839.8	78,128.3	81,941.4

<sup>a</sup> The trade data have been converted from the 4-digit BTN-level to the 3-digit ISIC-level.

<sup>b</sup> Estimated by the formula  $TC = \sum_i (M_i n_i (\Delta t_i / (1+t_i)))$  where TC is the trade creation,  $M_i$  the initial imports of the donor country from the beneficiaries of the CPTA,  $n$  the import demand elasticity,  $t$  the initial MFN tariff rate and  $\Delta t$  the change in the tariff rate (in this case the preferential tariff margin which equals the MFN tariff rate). The subscript  $i$  marks the 4-digit BTN-level in the tariff schedule of the donor country. The estimates have been converted into the ISIC-nomenclature and then aggregated up to the 3-digit ISIC-level.

<sup>c</sup> Estimated by the formula  $TD = \sum_i (M_{ni} n_i (\Delta t_i / (1+t_i)))$  where TD is the trade diversion and  $M_{ni}$  the initial imports of the donor country from non-beneficiaries either LDC or developed market economies (DC) plus socialist countries. Other symbols are the same as under trade creation. 1973 trade flows have been taken as the initial import level for both trade creation and trade diversion.

Sources: Own estimates.

Basic trade data from: GATT documents L 4412 / Add. 1, L 4412

(Third Annual Report to Contracting Parties, 1 and 16 November 1976).

Basic data on preferential tariff schedules from: BEA, Zollinformation, Zolldienst No. 4 April 1972. Specific tariffs in the Greek, Israeli and Mexican schedules have been converted into ad valorem tariff rates by means of the 1973 trade statistics:

Republique Hellénique, Office National de Statistique de Grèce, Bulletin Mensuel de Statistique du Commerce Extérieur, Février 1974.

Israel, Central Bureau of Statistics, Foreign Trade Statistics, Imports, Vol. 6 (1974).

Mexico, Anuario Estadístico del Comercio Exterior, 1973.

Table 4 - Continued

Sector (3-digit ISIC) <sup>a</sup>	Total Imports of GPTA-covered Products 1973	Trade Creation <sup>b</sup>	Trade Diversion <sup>c</sup>		Total Trade Expansion  (5) = (2)+(3)+(4)
			Non-beneficiaries From LDC	Non-beneficiaries from DC and Socialist Countries	
	(1)	(2)	(3)	(4)	
Donor-Country: Mexico					
Transport Equipment (384)	22,290.4	-	-	3,070.7	3,070.7
Sub-Total	58,748.3	235.4	-	5,484.7	5,720.1
Donor-Country: South Korea					
Tobacco (314)	4,927.0	288.9	59.0	0	347.9
Furniture & Fixtures (332)	611.0	-	1.5	304.6	306.1
Other Chemical Products (352)	102.0	-	-	43.0	43.0
Non-metal Products nec. (369)	123.0	-	-	28.3	28.3
Metal Products (381)	881.0	1.2	20.4	506.6	528.2
Sub-Total	6,644.0	290.1	80.9	882.5	1,253.5
Donor-Country: Spain					
Stone & Quarrying (290)	2,769.7	0.9	-	11.6	12.5
Food Products (311/2)	4,358.4	21.9	33.7	384.2	439.8
Textiles (321)	58.0	1.3	0.2	-	1.5
Wood Products (331)	2,009.8	10.7	-	61.4	72.1
Industrial Chemicals (351)	1,976.2	-	-	220.6	220.6
Other Chemical Products (352)	14,714.7	30.4	-	627.6	658.0
Glass and Products (362)	438.0	-	-	48.4	48.4
Metal Products (381)	3,501.0	11.2	-	780.7	791.9
Machinery nec. (382)	47,662.6	7.3	-	10,046.4	10,053.7
Electrical Machinery (383)	4,901.8	4.4	-	461.6	466.0
Other Industries (390)	366.1	0.9	48.0	8.8	57.7
Sub-Total	82,756.3	89.0	81.9	12,651.3	12,822.2
Donor-Country: Tunisia					
Textiles (321)	8,207.7	129.0	-	161.0	290.0
Industrial Chemicals (351)	4,221.1	-	-	2.0	2.0
Other Chemical Products (352)	15,150.7	0.5	-	421.2	421.7
Metal Products (381)	4,042.0	0	-	474.2	474.2
Machinery nec. (382)	6,657.6	0.4	-	70.7	71.1
Electrical Machinery (383)	13,564.8	2.5	-	160.3	162.8
Transport Equipment (384)	994.9	-	-	35.9	35.9
Sub-Total	52,838.8	132.4	-	1,325.3	1,457.7

Continued ...

Table 4 - Continued

Sector (3-digit ISIC) <sup>a</sup>	Total Imports of GPTA-covered Products 1973  (1)	Trade Creation <sup>b</sup>  (2)	Trade Diversion <sup>c</sup>		Total Trade Expansion  (5) = (2)+(3)+(4)
			Non-beneficiaries from LDC  (3)	Non-beneficiaries from DC and Socialist Countries  (4)	
Donor-Country: Greece					
Electrical Machinery (383)	19,939.7	10.9	-	457.2	468.1
Transport Equipment (384)	104,509.0	588.6	-	10,380.7	10,969.3
Professional Goods (385)	7,343.4	4.2	-	226.4	230.6
Sub-Total	184,800.5	696.1	19.9	13,664.2	14,380.2
Donor-Country: India					
Food Products (311/2)	106.4	2.7	-	19.9	22.6
Textiles (321)	609.7	-	179.2	8.1	187.3
Wood Products (331)	35.6	-	-	4.6	4.6
Industrial Chemicals (351)	539.7	-	-	128.1	128.1
Other Chemical Products (352)	333.3	-	13.6	160.6	174.2
Rubber Products (355)	236.5	-	-	233.2	233.2
Plastic Products, nec. (356)	1,554.2	-	6.2	1,303.2	1,309.4
Iron and Steel (371)	46,916.7	11.2	-	8,816.1	8,827.3
Non-ferrous Metals (372)	1,527.3	-	-	245.8	245.8
Metal Products (381)	6,808.3	11.8	-	3,776.7	3,788.5
Machinery nec. (382)	11,316.8	9.2	27.9	1,172.8	1,209.9
Electrical Machinery (383)	1,738.1	0.5	-	306.2	306.7
Transport Equipment (384)	24,860.9	0.1	-	9,776.8	9,776.9
Other Industries (390)	632.9	-	-	149.9	149.9
Sub-Total	97,216.4	35.5	226.9	26,102.0	26,364.4
Donor-Country: Israel					
Food Products (311/2)	415.0	9.9	24.9	9.2	44.0
Textiles (321)	965.0	0.2	-	29.5	29.7
Leather and Products (323)	56.0	-	-	6.7	6.7
Wood Products (331)	25.0	-	-	1.9	1.9
Plastic Products, nec. (356)	1,455.0	-	-	121.5	121.5
Sub-Total	2,916.0	10.1	24.9	168.8	203.8
Donor-Country: Mexico					
Food Products (311/2)	123.7	14.1	-	-	14.1
Paper and Products (341)	254.8	-	-	8.6	8.6
Industrial Chemicals (351)	4.2	-	-	0.3	0.3
Iron and Steel (371)	7,125.8	-	-	313.7	313.7
Metal Products (381)	349.9	14.1	-	75.7	89.8
Machinery nec. (382)	28,596.5	207.2	-	2,015.7	2,222.9

Continued ...



Table 4 - Estimated Trade Expansion Effects of the GATT Preferential Trade Agreement among Less Developed Countries (GPTA) (in 1000 US-\$)

Sector (3-digit ISIC) <sup>a</sup>	Total Imports of GPTA-covered Products 1973  (1)	Trade Creation <sup>b</sup>  (2)	Trade Diversion <sup>c</sup>		Total Trade Expansion  (5) = (2)+(3)+(4)
			Non-beneficiaries from LDC  (3)	Non-beneficiaries from DC and Socialist Countries  (4)	
Donor-Country: Brazil					
Agricultural and Live- stock Production (111)	917.1	25.6	-	22.0	47.6
Food Products (311/2)	42.4	0	3.4	1.2	4.6
Other Chemical Products (352)	66.5	-	-	6.4	6.4
Iron and Steel (371)	5,457.3	-	-	294.5	294.5
Machinery nec. (382)	46.4	-	-	1.6	1.6
Electrical Machinery (383)	15,077.1	-	-	664.2	664.2
Transport Equipment (384)	6,667.9	-	-	940.4	940.4
Other Industries (390)	34.0	-	-	8.3	8.3
Sub-Total	28,308.7	25.6	3.4	1,938.6	1,967.6
Donor-Country: Egypt					
Food Products (311/2)	649.2	0.3	-	6.8	7.1
Other Chemical Products (352)	7,444.5	2.1	-	606.8	608.9
Plastic Products, nec. (356)	18,561.3	18.9	-	1,098.7	1,117.6
Iron and Steel (371)	132.9	-	-	12.3	12.3
Metal Products (381)	30.1	0.4	-	4.5	4.9
Machinery nec. (382)	15,222.1	1.6	-	150.5	152.1
Professional Goods (385)	3,340.2	-	-	162.3	162.3
Other Industries (390)	96.5	-	-	8.0	8.0
Sub-Total	45,476.8	23.3	-	2,049.9	2,073.2
Donor-Country: Greece					
Food Products (311/2)	3,551.7	0.4	9.4	36.1	45.9
Beverages (313)	7,461.0	-	-	966.6	966.6
Textiles (321)	6,096.2	2.7	1.7	435.8	440.2
Wearing Apparel (322)	1,357.3	5.6	0.3	300.0	305.9
Wood Products (331)	996.8	2.0	-	36.7	38.7
Industrial Chemicals (351)	3,616.8	34.5	-	410.1	444.1
Other Chemical Products (352)	1,711.3	2.4	5.5	206.2	214.1
Plastic Products, nec. (356)	645.5	24.4	-	18.0	42.4
Porcelain, etc. (361)	1,381.4	1.6	-	14.1	15.7
Iron and Steel (371)	15,789.2	-	3.0	86.7	89.7
Non-Ferrous Metals (372)	6,897.0	8.9	-	10.1	19.0
Machinery nec. (382)	3,504.2	9.9	-	79.5	89.4

Continued ...

- the trade expansion is mainly confined to trade diversion to the detriment of trade with developed and socialist countries,
- the tariff preferences could stimulate additional trade among GPTA-members to an extent of about 10 percent of the initial trade level,
- this additional trade would cause a shift in the sectoral composition of GPTA-trade from both agricultural goods and semi-manufactures to manufactures,
- other less developed countries joining the GPTA would not significantly enhance the preferential trade at the given extent of concessions.

Besides a broader coverage of concession items a more rigorous tariff cut would - already at an unchanged number of concession items - foster the trade effects visibly. If for example the Swiss tariff cut formula had been applied, additional trade would have amounted to 21.4 percent of initial trade instead of actually 9.8 percent. But even this increase of preferential trade - in absolute terms by about \$ 180 million - would only correspond to 7 percent of total trade between the eleven reporting GPTA-members plus Pakistan<sup>1</sup> in 1975. Hence, even total trade liberalization in the original items seems to be inferior to a substantially broader coverage of concession items as far as the target of trade expansion between the GPTA-members is concerned.

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<sup>1</sup> Pakistan has not been included in the estimates, because it did not provide statistics on its preferential imports, while being mentioned by the other members as an exporting country under GPTA-conditions.

## Outlook

The effects of the GPTA visible so far lend support to the view that by mutually offering trade concessions the participating members behave like developed countries do in non-reciprocal trade negotiations with less developed countries: By applying a complex and time-consuming case-by-case procedure<sup>1</sup>, based on the self-selection principle, the donor countries reveal uncertainty on the effects of trade preferences, especially in South-South trade, as well as fear that a tariff cut across the board could substantially reduce the non-traded goods sector and hence threaten domestic producers. Thus, the higher the ratio between potential trade and actual trade is - say between India and Brazil - the more the partners are concerned about adverse effects for import-competing industries. Since the actual trade level between the GPTA-members is relatively low, whereas the potential of trade at least between those partners being semi-industrialised is high, the reluctance of the members to enforce the liberalization process outweighs the pretension that the GPTA could advance to an effective global preferential trade agreement in semi-manufactures and manufactures between less developed countries.

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<sup>1</sup> An UNCTAD report underlines the severe shortcomings of the GPTA procedure, whereas the UN-Centre for Development Planning only stresses the doubling of the GPTA-trade between 1973 and 1975 without referring to its low initial level in relation to total trade between the participants. See UNCTAD IV, op. cit., p. 9. - Centre for Development Planning, Projections and Policies: Salient Feature of Economic Co-operation among Developing Countries. Journal of Development Planning, New York, No. 13 (1978), p. 17.

Given the actual membership, GPTA-trade will automatically shrink in any case when Spain and Greece join the EEC: Their bilateral trade becomes intra-EEC trade, while their trade with other GPTA-members will be incorporated either in the various EEC-association agreements (with Israel, Turkey, Yugoslavia, and Tunisia for instance) or in the global GSP-scheme of the EEC. Without the "Mediterranean" component which encompassed about two-thirds of GPTA-trade in 1975, the importance of this first global trade agreement among less developed countries, however, will again be exceeded by the regionally limited arrangements. One of three UNCTAD priority areas<sup>1</sup> in trade affairs between developing countries, the establishment of a global system of trade preferences among developing countries, is therefore still a pending agenda point for future UNCTAD conferences.

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<sup>1</sup> The other areas adopted by the UNCTAD-Conference in June 1979 in Manila refer to co-operation among state trading organizations of developing countries and to the establishment of multi-national marketing enterprises among developing countries.