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To: Members of the Committee of the Whole
for the Development Committee

From: The Acting Secretary

Subject: The Industrial Policies of Industrial Countries and Their
Effects on Developing Countries - Summary and Issues for
Discussion

The attached paper, prepared jointly by the staffs of the Fund and the World Bank, provides a summary and issues for discussion for the paper on industrial policies of industrial countries and their effects on developing countries (SM/88/167, 8/4/88).

Ms. Kelly (ext. 8374) is available to answer technical or factual questions relating to this paper prior to the Committee meeting which is now scheduled for Friday, September 2, 1988.

The Bank's Committee of the Whole will consider their paper on "Industrial Policies of Industrial Countries: Impact on Developing Countries" (to be circulated shortly) on Tuesday, August 30, 1988.

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INTERNATIONAL MONETARY FUND

The Industrial Policies of Industrial Countries and Their Effects
on Developing Countries: Summary and Issues for Discussion

(Prepared by the staffs of the
International Monetary Fund and the World Bank)

August 5, 1988

At its September 1987 meeting, the Development Committee requested the staffs of the International Monetary Fund and the World Bank to prepare separate coordinated papers on the industrial policies of industrial countries and their impact on developing countries. The paper prepared by the Fund staff is "The Industrial Policies of Industrial Countries and Their Effects on Developing Countries" (SM/88/167, 8/4/88). The paper prepared by the World Bank staff is "Industrial Policies of Industrial Countries: Impact on Developing Countries," and will be issued to the Board for information under separate cover. This covering memorandum has been prepared jointly by both institutions; it summarizes only the major conclusions of both papers and lays out some questions the members of the Development Committee may wish to use to guide their discussion of the papers.

Major Conclusions

1. Available evidence shows an escalation of subsidies from 1973-83 and shows a recent tendency to shift from direct subsidies for manufacturing to import protection, particularly in those parts of manufacturing (e.g., steel) in which developing countries have a growing export interest; this shift may have been accompanied by an increase in less transparent forms of assistance.
2. Industrial country trade barriers tend to be higher on imports of manufactures from developing countries than on those from other industrial countries.
 - a. Most-favored-nation (MFN) rates tend to be higher on products exported in significant part by developing countries. Moreover, peaks in MFN rates tend to be concentrated in areas such as textiles, clothing, footwear, and some petrochemicals of export interest to developing countries.
 - b. Generalized System of Preferences (GSP) schemes for developing countries often exclude their most important manufactured exports.
 - c. For trade between Western European countries, reductions from MFN rates, i.e., preferences, are often larger than preferences on imports from developing countries.

d. Developing country exports of manufactures to industrial countries tend to be more subject to nontariff barriers (NTBs) than does trade in manufactures among industrial countries.

3. Restrictions on commodity imports--both tariffs and NTBs--often increase with the degree of processing. This escalation often protects processes such as crating and packaging, which could efficiently be done at point of origin and, therefore, are of particular interest to lower-income developing countries. It biases trade flows toward raw materials, inhibiting first and second stage processing in developing countries of products for which they are primary suppliers of raw materials. Tropical foodstuffs, fabrics and certain petrochemicals are cases in point.

4. There has been a significant increase in the number of administered protection cases (e.g., antidumping, countervailing duty), particularly against exports from developing countries. These cases not only generate specific trade restrictions, they also create uncertainty as to the continued openness of markets, and may deter investment and the adoption of outward-oriented growth strategies.

5. Global systems of export restraints, such as the Multifibre Arrangement and voluntary restraints on steel exports, reduce resistance to protection. The price effects and the barriers to entry that result from such systems assure strong exporters of continuing profits and induce potential suppliers to negotiate for a share of a controlled market rather than compete for a share of an open one. Because of their discriminatory nature, these arrangements undermine the multilateral trading system.

6. Partly because of a rapid increase in imports in the mid-1980s, the United States accounts for about half of developed countries' manufactured imports from developing countries. The EC's share is 30 percent, of which almost one third goes to Germany (FRG), while the next largest purchaser, Japan, takes about 8 percent. The East Asian NIEs provided two thirds of developing country manufactures exports in 1986. The share of the least developed countries has declined.

7. Defensively-oriented industrial policies of industrial countries tend to distort relative prices and slow domestic growth. Such policies may assist individual industries to adjust to a changing competitive environment, but they do so at high cost to consumers and taxpayers, and often to other industries as well as to trading partners.

8. Industrial country protection reduces developing country national income by almost twice the amount of official development assistance that is provided. This is an estimate that may understate reality because it does not take into account the dynamic effects of protection.

Issues for discussion

1. Given the increasing strength of protectionism in so many countries, how can political support be generated for rational industrial and trade policies? Would improved transparency and a greater emphasis on the domestic costs of protection or subsidy proposals help? Would improved domestic surveillance of trade policies enhance international surveillance and serve to help governments resist pressures for protection?
2. Since antidumping and countervailing investigations can restrict trade unjustifiably, would Ministers agree that both the use of "administered protection" and the way it is administered need to be reconsidered in light of the need to provide greater certainty of market access and to encourage developing countries to take further advantage of the opportunities that international trade provides?
3. Do Ministers share the view that priority should be given to:
 - a. A reduction of tariff escalation, particularly protection of second-stage processing, which is of immediate interest to primary producing developing countries?
 - b. Reducing the use of export restraint arrangements, in order to further encourage development along the lines of comparative advantage?
4. The EC is in the midst of a far-reaching program to remove all remaining barriers to internal trade in goods and services by 1992. The U.S. and Canada are in the process of ratifying a major bilateral free trade agreement. How can the international community ensure that these initiatives strengthen the multilateral trading system and the further integration of developing countries into that system?
5. Would Ministers agree that creating greater flexibility in the domestic economy through, inter alia, trade liberalization justifies, and indeed requires, early action both on a national level and in a multilateral context by developed and developing countries alike? Particularly, as outward-oriented growth strategies have been proven to be highly effective, would it be agreed that they constitute important elements of any adjustment program?

