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To: Members of the Executive Board

From: The Secretary

Subject: Trade Policy Issues, Protectionism and Development

The attached paper which will also be circulated by the Executive Secretary as DC/85-8 to members and associates of the Development Committee, is being circulated to the Executive Directors for their information. Part A of the document is essentially the same as Sections II and III of SM/85/60 (2/19/85). Part B has been prepared by the Bank staff.

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TRADE POLICY ISSUES, PROTECTIONISM AND DEVELOPMENT

Background paper prepared by IMF and World Bank Staff for consideration at the Development Committee Meeting April 18-19, 1985.

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PREFACE

This document contains background material prepared by the Fund and Bank staffs on trade policy issues. It is in two parts. Part A, prepared by the Fund staff, is entitled "Trade Policy Issues and Developments." It reviews recent developments in the trade area and represents a part of the ongoing work by the Fund staff on trade policies. The paper emphasizes policy developments in the major trading nations as they relate to trade in industrial and agricultural products. In addition, it reviews trade policies in developing countries. Section I of Part A highlights the main features of recent developments that are relevant for a broad assessment of the current stance of trade policies. Section II of Part A assesses the prospects for global trade liberalization by describing the main issues that will influence the scope and timing of trade liberalization under a possible new GATT round of multilateral negotiations.

Part B, prepared by the IBRD staff, is entitled "Trade, Protection, and Development" and focuses on non-tariff measures that inhibit trade in both industrial and developing countries. This Part argues that action to liberalize these restraints is of the greatest importance in stimulating trade and economic growth and in strengthening the international trade system. First, evidence is presented on the extent and prevalence of non-tariff measures in world trade. Second, the significant costs of these measures both on the countries imposing them and their trading partners are analysed. Third, the linkages between trade, finance, and structural adjustment are discussed. Attention is drawn to the fact that highly indebted developing countries encounter significant non-tariff restraints in their exports to industrial countries. The last section examines possible approaches to liberalizing trade affected by non-tariff measures especially in the context of a new GATT round of multilateral negotiations.

1/ Development Committee Press Communique, Washington, D.C., September 23, 1984, paragraph 7.

PART A 1/

Trade Policy Issues and Developments 2/

I. The Salient Features of the Present Situation

The continued drift toward protectionism poses a threat to the balanced expansion of world trade in the medium term, and to the prospects for sustaining economic recovery.

1. In the past several years, protectionist pressures and actions increased significantly in most industrial countries. Although Tokyo Round tariff cuts continued, and limited instances of liberalization of nontariff barriers occurred, the overall drift toward protectionism that began in the mid-1970s recently accelerated. Trade restrictions or trade-distorting measures were intensified or imposed not only in the traditionally protected sectors such as steel, textiles and clothing, and agriculture, but they also spread to new sectors such as automobiles and electronics. The notable exception among industrial countries is Japan, which has undertaken a series of important liberalization measures in recent years.

2. Consumption in product groups subject to nontariff restrictions in 1983 accounted for some 30 percent of total consumption of manufactures in the major OECD countries, compared with 20 percent in 1980. 3/ A recent study 4/ estimated the share of imports restricted by nontariff measures in total imports of manufactures in 1980 at 6, 11, and 7 percent, respectively, for the United States, the European Community, and Japan; restrictions introduced during 1981-83, in terms of 1980 dollar values of imports, were 6 1/2 percent

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1/ Prepared by the Fund staff.

2/ In accordance with the underlying purpose of the Fund, namely, to facilitate the balanced expansion of international trade with a view to promoting economic growth, trade policy issues have received careful attention in the Fund's exercise of surveillance and in connection with its lending programs. The Fund's Executive Board plans to discuss a broad range of trade policy issues and developments later this month; in this context, Executive Directors are expected to review the role of the Fund in the trade field and the active collaboration between the Fund and the GATT. Trade-related issues pertaining to the forthcoming Development Committee discussion will be covered in the paper on Fund-related issues for the Development Committee meeting.

3/ OECD, "Costs and Benefits of Protection," unpublished (November 1984). The proportions were calculated using 1980 values.

4/ Balassa and Balassa, "Industrial Protection in the Developed Countries," The World Economy, Vol. 7, No. 2 (London: June 1984), pp. 179-196.

and 4 percent, respectively, for the United States and the EC. Many of the new restrictions applied to Japan and some of the major developing country exporters of manufactures. The OECD estimated that 15 percent of the combined exports of manufactures of five Asian exporters to the OECD countries were subject to trade restrictions in 1980; this proportion rose to 30 percent in 1983. 1/ Trade in temperate and competing zone agricultural products (accounting for almost one half of world agricultural trade) largely took place under restrictive and protectionist trade policies.

3. International trade flows are particularly responsive to cyclical factors. In addition, trade expansion induced by an open trading system feeds back on the growth of output. While it is difficult to establish clearly the relative influence of cyclical factors and the stance of trade policies on the growth of international trade, it is evident that the recent economic recovery has had a strong positive effect on world trade expansion. According to GATT statistics, world trade growth averaged 8 1/2 percent annually in 1963-73; the growth of world output averaged 6 percent. In 1973-83, world trade grew by 3 percent annually, while output grew by 2 percent. In contrast, according to World Economic Outlook estimates, world trade growth in 1984 (9 1/2 percent) significantly outstripped the expansion of output (5 percent). With an expected slowdown in economic growth rates in industrial countries, the growth of world trade is projected to decelerate to 5 1/2 percent in 1985. The prospects are for economic growth in industrial countries in the period until 1990 to remain well below the averages reached in the late 1960s and the early 1970s. While the strength of demand, rather than the stance of trade policy, has been the dominant influence, there is little doubt that the effects of protection on efficient resource allocation have implications for the pace and pattern of world growth of output and trade. These effects may well become more pronounced in a context of relatively modest medium-term growth prospects.

4. Another aspect of the relationship between trade and growth at present is the unevenness of the economic recovery concentrated in North America. Reflecting strong demand and an appreciating dollar, U.S. imports (in terms of value) grew by 31 percent in the first nine months of 1984, compared to the corresponding period in 1983, with all country groups showing significant increases. In particular, U.S. imports from Japan and the group of major exporters of manufactures grew very rapidly--by 48 and 41 percent, respectively. Major exporters of manufactures, led by Brazil, Korea, and Singapore, expanded their market share from 10.4 percent to 11.2 percent of

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1/ The exporters concerned were Hong Kong, Korea, Japan, Singapore, and Taiwan Province of China. The 1983 proportion is calculated using 1980 trade weights.

U.S. imports. 1/ Other non-oil developing countries, however, lost significant market shares. 2/ Contrary to earlier expectations, however, the strong recovery in the United States was not accompanied by reduced protectionist pressures, either in the United States itself, or to any significant degree among its trading partners, whose exports increased sharply as a result of the upsurge in U.S. import demand. Indeed, the persistence of high unemployment in many industrial countries made it more difficult to resist protectionist pressures and weakened the impulse for trade liberalization, especially in employment-sensitive sectors.

5. These developments are a source of continuing concern, particularly because the rise in protection is concentrated in sectors where comparative advantage is shifting, and has taken the form of quantitative restrictions which directly limit trade expansion on the basis of comparative cost, and, by impairing the functioning of the international price mechanism, create uncertainties among investors, particularly with regard to expansion of export capacities. In a dynamic context, the longer term adverse effects of protectionism on investment, efficiency, and growth are thus likely to be more severe than the immediate effects on exports of certain countries or groups of countries. The growth of public subsidies to enterprises in industrial countries has also continued, and is a source of concern, both because of the need to redress fiscal imbalances and because of the trade distortions that they create.

An aspect of particular concern about the drift toward protectionism is the frequent recourse to bilateral, sector-specific trade measures which harm the multilateral trading system based on the GATT and go against the principle of comparative advantage that forms the basis for efficient trade expansion.

6. The staff survey confirms that the vast majority of measures applied in response to difficulties in specific sectors have a strong bilateral element designed to restrict import competition from countries with a comparative cost advantage. Restraints, administrative guidance, and floor price systems apply to 40 percent of Japan's exports to the United States and the Community, and to about 20 percent of its total exports. The Multifiber Arrangement (MFA), which derogates from GATT principles by authorizing discriminatory restrictions, has been made progressively more restrictive against developing country exporters, and, within this group, against the largest suppliers. Notwithstanding the developing countries' increase in the share in world exports of textiles and clothing in the aggregate, the existence of the MFA has prevented them from exploiting totally their

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1/ Had their 1983 market share remained unchanged, the combined exports of this group of developing countries would have been about $2 billion, or 7 percent lower over the first nine months of 1984.

2/ Exports of non-oil developing countries, other than the major exporters of manufactures, would have been about $5 1/2 billion (13 percent) higher, had they maintained unchanged 1983 market shares.

comparative advantage potential. For example, the OECD estimated the compression of imports of textiles and clothing from non-OECD sources in 1982 and 1983 at 10 percent in volume terms. 1/

7. As the more advanced developing countries acquire the skills and investments to diversify exports toward more sophisticated manufactured products, restrictions against them have tended to multiply. This not only impedes the export prospects of the developing countries directly affected, but also slows the wider process of specialization and diversification, thus affecting the "smaller" developing country exporters severely. Bilateral, sector-specific restrictions impede competition, not only between producers in industrial countries and lower-cost suppliers in developing countries, but also among the developing countries themselves. Investment opportunities may not be fully exploited in developing countries lacking security of access to markets abroad for future expansion of exports.

8. Recent experience in the agricultural sector is similar. It illustrates that it may not be possible to contain the effects of bilateral measures to the intended countries. Agricultural trade frictions have revolved around the operation of the Community's Common Agricultural Policy. Frictions have been aggravated by subsidized sales under U.S. "blended" credit arrangements, which are partly designed to maintain the traditional U.S. market share vis-a<-vis the Community. Although such competition for sales in third markets has been viewed as a legitimate practice designed to encourage reform of the Common Agricultural Policy, it has also, inevitably, put pressures on other efficient producers to match the more beneficial credit terms.

An underlying reason for the continued drift toward protectionism is a lack of full appreciation of the costs of protection and the economic arguments for liberal trade.

9. The staff survey revealed that the reasons given for the failure to reverse the drift toward protectionism range widely. They include factors such as exchange rate relationships; trade or current account deficits; "unfair" foreign trade practices; weak economic recovery; structural rigidities; high rates of unemployment; the perception that departures from liberal trade policies have been relatively insignificant; developing countries' need for infant industry protection; the need for protection in "new" industries such as high technology; and the special characteristics of a sector such as agriculture. These arguments explain some of the factors

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1/ The OECD study estimated import compression as the difference between actual imports and imports predicted by a model based on 1966-81 data. It noted that, subsequent to the implementation of the Multifiber Arrangement in 1973, OECD imports of textiles and clothing became almost totally unresponsive to price signals. When based on 1966-72 data, the model estimated that 1982-83 import volumes from non-OECD sources would be at least twice as large as the observed magnitudes.

underlying the strength of protectionist pressures, but do not take account of the costs of protection, particularly where measures are not "temporary," as originally intended. In the final analysis, the major explanation for the continued resort to protection is the absence of sufficient political will to resist protectionist and bilateral measures.

10. It is generally acknowledged that concentrated producer interests can lobby strongly for protection, while the interests of comparatively less organized consumers and taxpayers are more diffuse and spread throughout the economy. That it is technically and politically feasible to give greater weight to interests of consumers and trading partners is illustrated by the recent U.S. decision to reject import relief for copper producers, even though the proposed restrictions would have been consistent with domestic and international norms. For a better and more consistent balance between national producer and consumer interests to be effective, governments could make concerted efforts to publicize the costs of protection, and to take them into account more systematically in trade policymaking. For example, a recent study 1/ calculated the average subsidy paid by the consumer for each job protected in the United States as a result of tariff and nontariff restrictions applied on television receivers, footwear, and steel in the 1970s. It concluded that the annual cost of protection, in terms of the subsidy from the consumer, reached almost six times the cost of compensation per job in the television industry, more than nine times in footwear, and four and a half times in steel.

The smooth functioning of the international adjustment process requires an open trade and payments system.

11. Trade protectionism hinders smooth balance of payments adjustment, while, if exchange systems are restrictive, the balanced expansion of world trade and sustained economic growth are difficult to achieve. Although this shared complementarity of the monetary and trade systems has been recognized by the Fund and the GATT, large movements in exchange rates have, in recent years, given rise to concerns among some policymakers about the feasibility of maintaining liberal trading conditions. By creating greater market uncertainty, exchange rate volatility may give rise to protectionist pressures. However, a recent Fund staff study, while acknowledging the difficulties of assessing the impact of exchange rate volatility on world

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1/ M.C. Munger, "The Costs of Protectionism: Estimates of the Hidden Tax of Trade Restraint," Center for the Study of American Business, Working Paper No. 80 (St. Louis: July 1983).

trade, found no statistically significant link to support the hypothesis that greater volatility since the early 1970s had impeded world trade. 1/

12. Across-the-board protectionist measures have been avoided in the industrial countries because it is widely acknowledged that trade restrictions and protectionism are inappropriate responses to exchange rate developments. In specific sectors, however, protectionist pressures have sometimes proved difficult to resist. Sectors where nontariff measures have been introduced are often structurally weak, and probably would have pressed for protection even in the absence of exchange rate movements. Protectionist pressures have risen significantly in the United States, which has also experienced a sharp rise in the value of the U.S. dollar against other major currencies, and substantial trade deficits in the past two years. With a worldwide surplus capacity in several sectors, the faster U.S. recovery encouraged the sharp rise in U.S. imports, and protectionist pressures were felt most severely in traditional sectors where structural adjustment was weak or insufficient.

13. Exchange rate movements reflect financial flows as well as trade flows, and the importance of exchange rates that correspond to underlying economic fundamentals is unquestioned. Monetary and fiscal policies that influence savings and investment, in particular real interest rates, are important determinants of current account balances. Even though exchange rate movements can improve or undermine industrial competitiveness, the appropriateness of given exchange rate relationships cannot be assessed solely with reference to the size of trade imbalances. Exchange rate developments may explain some of the pressures for protection; they do not justify either generalized or sectoral protection.

Bilateral protectionism is a serious obstacle to meaningful trade liberalization, because it lacks transparency and creates vested interests among exporters and importers for the preservation of the status quo.

14. Many of the current trade restrictions are applied in the form of voluntary export restraints (VERs) or informal understandings reached through bilateral bargaining between the importing and the exporting country by the governments or industries concerned. Such measures also create incentives for new bilateral measures to proliferate as producers in other sectors press for similar restrictions.

1/ Exchange Rate Volatility and World Trade, IMF Occasional Paper No. 28 (Washington, D.C., 1984). This study was prepared in response to a request by the GATT CONTRACTING PARTIES; see also section IV.3 below. A subsequent study by the staff of the Federal Reserve Bank of New York concluded that exchange rate variability might have reduced the volume of international trade in manufactured goods in the United States and Germany. M.A. Akhtar and R. Spence Hilton, "Effects of Exchange Rate Uncertainty on German and U.S. Trade," Federal Reserve Bank of New York, Quarterly Review, Spring 1984. The Fund staff is currently engaged in replicating the tests used in this study for other countries.

15. At the microeconomic level, bilateral market-sharing arrangements are perceived to have many attractive features. For the domestic producer of the import-competing product, a bilateral restriction shelters his market from the more efficient foreign producer, and may help him to maintain sales and profit margins. For the exporter, a voluntary export restraint arrangement, which is frequently specified in terms of quantity, provides an assured outlet for his product and, depending on the relevant elasticities, may enable him to capture the rents arising from the ability to raise the export price to the extent of the difference between the international price and the higher domestic price in the importing country. The allocation of export licenses on the basis of historical market shares may inhibit export sales by new firms. The exporter may resist converting a bilateral export restraint arrangement to a more transparent and economically more efficient tariff, as it could lead to a loss of rents; reverting to a free-trade situation is resisted because it could lead to a loss of market share as well. Exporters not initially restricted by a bilateral arrangement may in fact welcome the arrangement, as it provides at least a short-term opportunity to expand sales and increase market shares. If realized, however, further pressures inevitably develop to make bilateral arrangements more restrictive and expand them to cover more suppliers and close substitutes for the products initially restricted. Liberalization of such restrictions may be resisted both in exporting and importing countries because they can be rationalized as offering greater "security" in international trade flows than would an unrestricted trade regime. Cartelization of international trade may thus be encouraged.

16. Cases of alleged "unfair" competition have been increasingly settled through market-sharing arrangements rather than through the imposition of GATT-authorized antidumping or countervailing duties. This has tended to further weaken international trade discipline, to the extent that exporters are encouraged to acquiesce in such bilateral arrangements rather than to eliminate the distortions arising from the dumping or subsidy practices themselves.

<u>The recent revival of interest in bilateral free-trade areas has raised some questions about the prospects for strengthening the multilateral system.</u>

17. The possibility of establishing a free-trade agreement between Canada and the United States has been under discussion in academic and policy circles for several years, particularly on the Canadian side. Recent U.S. legislation authorizes the U.S. government to negotiate bilateral free-trade agreements with Israel, Canada, and possibly other countries. In several other industrial and developing countries, concerns have been voiced about the possibility of trade diversion if bilateral trade liberalization between major trading nations is achieved at the expense of the most-favored-nation principle.

18. GATT rules endorse the creation of customs unions and free-trade areas under certain conditions, and several of them have been in existence for many years. The recent concerns are related to the possible impact of new bilateral agreements involving one or more major trading nations on the prospects for global trade liberalization on a nondis- criminatory basis. So

long as tariffs were the main instrument of protection, the assessment of the costs and benefits of free-trade areas was relatively straightforward, as was the application of the compensation principle under the GATT to third countries adversely affected by such limited trade liberalization. In the present situation, however, free-trade areas based solely or primarily on zero duties on merchandise trade would be of more limited significance, owing to the already low level of average MFN tariffs in the industrial countries. If, however, free-trade areas involved the negotiation between agreement countries of reciprocal lowering of nontariff barriers, questions would arise (1) whether such free-trade areas would, in practice, give rise to some form of increased nontariff restrictions against third countries; (2) whether the technical and political difficulty of lowering nontariff restrictions between free-trade partners is such as to make it feasible, with a relatively small additional effort, to extend the same treatment to all countries; and (3) whether new free-trade agreements at this juncture would divert the attention and interest of major trading nations from the multilateral trading system.

Many developing countries generally maintain relatively complex and restrictive trade regimes; their simplification and liberalization would promote greater efficiency of resource use and contribute to economic integration between developed and developing countries and also among developing countries.

19. With some notable exceptions, developing countries have traditionally relied heavily on tariff and nontariff barriers to trade. Although, at an earlier stage, the adoption of a protectionist policy may have been considered necessary to stimulate economic development, experience suggests that protection often went considerably beyond what may have been justified on infant industry grounds. Balance of payments constraints have influenced the stance of trade policy to an important degree. Recourse to countertrade arrangements has also increased. 1/

20. Developing countries often resort to both trade and payments restrictions, and it is therefore difficult to identify the incidence and effects of trade policies per se in these countries. The staff conducted a survey of a sample of 35 developing countries on the basis of information available in the Fund. The survey showed that, between 1978 and 1983, there was relatively little overall change in the restrictiveness of their exchange and trade systems. In terms of their share in developing country trade, about one third of the sample increased reliance on restrictions, restrictive systems were liberalized in about two fifths, and there was no significant change in restrictiveness in the remainder. This overall result must be seen in the context of the balance of payments difficulties of developing countries

1/ A recent estimate suggests that countertrade arrangements may account for as much as 5 percent of world trade. See Gary Banks, "The Economics and Politics of Countertrade," The World Economy, Vol. 6, No. 2 (June 1983).

in this period. Only a few countries relied primarily on tariff protection; most used a combination of tariffs and nontariff trade restrictions.

21. The limited comparable information available on tariff levels broadly indicates that developing countries maintain a high average statutory level of tariffs, and that, with some notable exceptions, this has not changed significantly in recent years. Fiscal considerations are very important in determining tariff policy in many developing countries. Nontariff restrictions, and especially quantitative import restrictions, are widely used in developing countries, often in conjunction with industrial licensing and foreign investment policies. Statutory tariffs are prohibitive in some sectors, but import licenses are frequently granted with substantial exemption from the statutory tariff in accordance with established sectoral objectives. Such a system may exacerbate the dispersion of de facto tariffs and thus increase allocative distortions. In the dozen developing countries for which comparisons between 1983 statutory and actual average import duty rates were available, the scope of import duty exemptions was limited to 25 percent of imports or less in only one or two cases; in most developing countries, at least one half or more of imports benefited from duty exemptions.

22. It is questionable whether, in practice, high trade protection in developing countries is limited to infant industry considerations. In some sectors, a number of developing countries have a comparative advantage without the need to rely on protection. For example, according to a GATT survey of 21 developing countries, the combined average tariff level for textiles and clothing was less than 10 percent in one case, and ranged from 10 to 25 percent in 3 cases, from 25 to 50 percent in 6 cases, and exceeded 50 percent in 11 cases. The same study reported that, of 22 developing country markets surveyed at the end of 1983, only 4 (Hong Kong, Macao, Malaysia, and Singapore) reported no nontariff measures on imports of textiles and clothing. Moreover, in textiles and clothing there was a modest positive correlation between the level of tariffs and the number of nontariff measures.

23. The scope for further trade liberalization by developing countries therefore remains considerable, particularly if both import-competing and export-oriented domestic production are to benefit from more exposure to foreign competition and realize the longer term gains from specialization and economies of scale. In some sectors in developing countries, some tariffs or nontariff restrictions may be redundant in an economic sense, and rationalization of protection may, in the first instance, involve the removal of these redundancies.

24. The prevalence of protectionist pressures in the major trading nations, and their failure to avoid the drift toward protectionism, has weakened efforts to mobilize domestic support for a more open and rational trading system in developing countries. At the same time, the maintenance of visibly high trade restrictions in developing countries complicates the argument for trade liberalization in those sectors in industrial countries. Thus, protectionism in industrial and developing countries tends to feed on

itself, and compounds the difficulties of forging an international consensus on mutually beneficial trade liberalization.

A number of developing countries have recently taken important steps toward liberalizing their trade regimes in conjunction with the adoption of comprehensive adjustment programs; the success of these efforts will depend on their comprehensive and sustained efforts to pursue appropriate domestic policies and on the openness of markets abroad.

25. There has been growing recognition in recent years that economic growth in developing countries can be enhanced by the pursuit of more open trade policies. Thus, balance of payments adjustment efforts have been directed not only at bringing aggregate demand more in line with supply, but also at encouraging improved supply responses over the medium term throughout the economy, by greater reliance on the price mechanism. More export-oriented growth strategies involve reduced reliance on production at high resource cost for the home market, and greater emphasis on price incentives for competitive production. This shift in policy emphasis is by no means generalized to all developing countries.

26. The extent and nature of steps taken by developing countries toward liberalization has varied from country to country, depending on prevailing balance of payments pressures, the extent of the distortions, and the scope of corrective domestic policies that the authorities were prepared to introduce. In several cases, trade liberalization was an important element in the adjustment efforts supported under Fund and IBRD programs. In a number of heavily indebted countries, external payments problems had developed to the point where sizable external payments arrears had emerged, and the first priority was to restore a degree of normalcy in the payments system through the reduction of arrears and the consolidation of external debt service payments. In other developing countries, the external imbalance, while serious, was not critical, and trade liberalization could be launched without delay. In a few instances, countries initiated more open trade policies before introducing adjustment programs, and the programs helped support and reinforce their liberalization efforts. In all cases, the pursuit of appropriate exchange rate policies was a critical element in the corrective policies pursued. Where complex and highly restrictive trade and payments systems had been introduced as a means of avoiding or delaying the correction of an overvalued currency, the subsequent adjustment effort eased balance of payments pressures, thus improving prospects for future liberalization.

27. Each of the actual examples of liberalization contains some of the elements described above. In Brazil and Mexico, an immediate priority was the correction of a severe currency overvaluation, and the orderly settlement of external arrears. As the adjustment programs take hold, these countries are taking significant steps toward reducing reliance on nontariff trade barriers, and are examining the modalities of removing excess protection of domestic industries and rationalizing the tariff structure. Reliance on quantitative restrictions was also reduced in India and Pakistan, while, in Korea and Thailand, trade liberalization included reduction of both tariff and nontariff barriers. In contrast, liberalization in Malaysia consisted mainly of a

lowering of tariffs. The Korean example is of particular interest because trade liberalization will be phased in over a number of years, in a manner designed to permit industries to adapt progressively to increasing foreign competition. By the end of 1988, the scope of Korea's discretionary import licensing and the height of the tariff are not expected to be substantially higher than in some OECD countries. Several developing countries have undertaken to reduce or freeze their export subsidies under the GATT code on subsidies.

28. A crucial result of successful trade liberalization in developing countries is to encourage a shift of resources from import-substituting to export-oriented production. Two critical requirements must be met if this shift is to be more than transitory, and be allowed to have the desired response on investment. First, trade liberalization must be accompanied by the sustained pursuit of sound domestic financial and economic policies. For example, trade liberalization may entail greater reliance on the price mechanism, including more market-related pricing, exchange rate, and interest rate policies. Second, the success of efforts to increase export orientation must not be frustrated by foreign trade barriers. The lack of assurance of open markets, as evidenced by the drift toward protectionism, is an impediment to developing countries' efforts to promote growth based on comparative advantage.

<u>More open trade policies in industrial and developing countries would contribute to a higher level and improved sectoral composition of foreign direct investment flows to developing countries, and thus improve the balance of payments adjustment process and efficiency in the allocation of world savings.</u>

29. Foreign direct investment flows to developing countries are influenced by a variety of factors and policies, including, importantly, the host country's economic policies. An issue of particular importance in determining the composition of foreign direct investment flows is the extent to which the host country's policies favor import-substituting production, or whether they also encourage the expansion of exports. High levels of tariff and nontariff barriers, particularly in developing countries with large domestic markets, encourage direct investment inflows into manufacturing for the domestic market, while more open trade policies (e.g., in Singapore) encourage production for export markets. A corollary of the recent shift to more open trade policies in some developing countries has been a liberalization of policies to attract a greater inflow of foreign investment. To the extent that the additional investment flows are directed toward production for export markets, industrial countries' willingness to absorb imports from developing countries in sectors where they have a comparative advantage will be critical, both in encouraging greater reliance by developing countries on private direct investment, and in reinforcing the pursuit of more open trade policies by developing countries.

II. Prospects for Global Trade Liberalization

30. Since the last session of the GATT CONTRACTING PARTIES in November 1984, a broader international consensus has begun to emerge on the need to launch a new round of multilateral trade negotiations under GATT auspices to deal with problems facing the international trading system. Although it is premature to predict the timing of such negotiations, an assessment may be made of the key areas that will determine the scope and content of trade liberalization.

Structural adjustment is at the core of several current trade policy issues

31. Structural adjustment, and the role of government intervention in adaptation to competitive forces, strongly influence the stance of trade policies. Failure to adapt to shifts in demand, technological change, and productivity improvements, generate protectionist pressures which, unless resisted, are translated into progressively restrictive trade policies. Policymakers, in principle, have long recognized the link between open trade policies and the promotion of adjustment. Indeed, GATT rules are based on two main propositions regarding these links. One is that a liberal trade system is necessary to allow the effects of shifts in comparative advantage to be felt across national boundaries over time. Thus, protection of national industries through tariffs rather than quantitative restrictions is permissible under GATT rules. Successive trade negotiations have aimed at lowering protection and thus increasing the exposure of economies to foreign competition. The other proposition derives from the principle that a safety valve should permit countries to impose restrictions on a temporary basis when domestic industries face unforeseen difficulties as a result of previous trade liberalization. However, recourse to such safeguard measures is subject to strict guidelines to prevent abuses. In practice, unauthorized bilateral restrictions have tended to proliferate, and the "safety valve" has often been misused.

32. A report by a special OECD group on positive adjustment policies adopted in 1982 suggested criteria that should be adopted by governments to promote adjustment. A working party on structural adjustment in the GATT concluded recently that "the main contribution that the CONTRACTING PARTIES could make to the adjustment process would be to abide by their obligations under the GATT." 1/ In 1984, the GATT secretariat concluded that structural adjustment problems were not fundamentally different in the textiles and clothing sectors than in other sectors. 2/

1/ GATT document L/5568 (10/20/83).

2/ GATT, Textiles and Clothing in the World Economy (Geneva, July 1984), p. 12.

33. These advances in elaborating the links between trade and adjustment have thus far had a limited effect on actual trade policy formulation. A central problem is how to define the appropriate role of government intervention in promoting more efficient resource allocation through the use of instruments such as tax policies, government subsidies, anti-trust legislation, labor legislation, and government ownership of production facilities. Structural adjustment issues have special relevance for trade policy in four areas.

34. First, in the established manufacturing sectors in the main industrial countries, such as textiles, clothing, and steel, observed losses of employment and underutilization of capacity are sometimes considered as providing sufficient evidence of an ongoing adjustment. For example, employment losses occurred in the textiles sector in industrial countries throughout the postwar period, when the sector was heavily protected. A recent GATT study notes that these reflect in part the incentive for firms to adopt more labor-saving innovations. Focusing on employment trends in declining sectors obscures the costs of lost job opportunities in other, more efficient industries. Also, increases in the market share of developing countries in certain sectors do not necessarily indicate that trade restrictions have been ineffective. For example, developing countries' share of world exports of textiles rose from 34 percent in 1973 to 46 percent in 1982, and their share in clothing exports rose from 30 percent to 40 percent. Since this took place with protection, the implication is that the cost advantage of developing countries was such that they could have captured an even larger share of the market, thus promoting a more efficient expansion of world trade.

35. Second, in the area of agricultural policies, there is a greater appreciation among industrial countries of the unsustainable budgetary costs of open-ended farm price or income support programs, and initial steps have been taken in the European Community, Japan, and the United States toward bringing these under control. In addition, the GATT Committee on Trade in Agriculture recently reached understandings on the need for a more coordinated approach to agricultural trade barriers. It established a framework within which future negotiations on agricultural trade liberalization could be conducted. These recent advances are welcome, but they must be viewed against the background of significant and increased frictions that have characterized trade relations in agriculture among the major trading nations in the past three years. The reform measures implemented thus far are not sufficiently far-reaching to offer the prospect or assurance that the problems arising from structural surpluses, and their disposal in world markets, will be resolved in the medium term.

36. A third--and relatively new--issue concerns the role of trade policy in shaping the establishment of new high technology industries in the industrial countries. The products range from new consumer goods with a high technological content, such as video cassette recorders and digital audio components, to products with office or industrial appli- cations, such as computer chips, advanced computers, office automation equipment, and numerically controlled machine tools. An issue of particular relevance to

trade policy in this sector is the appropriate degree of public support for research and development. Such support is sometimes said to "create" comparative advantage, and is included under the heading of "targeting." In order to forestall the spread of trade barriers in this sector, the United States has proposed a GATT study on high technology. Given the different attitudes of governments concerning their role in promoting industrial development, this proposal has not yet been adopted, and trade frictions have emerged in high technology goods.

37. The fourth area in which the links between trade policy and structural adjustment require clarification and strengthening concerns the trade policies of developing countries. The role of more open trade policies in inducing faster growth and greater efficiency is frequently not sufficiently acknowledged, and the adjustment issue in developing countries is sometimes viewed as a problem caused by exogenous factors, including trade restrictions applied in the industrial countries. Limiting protection strictly to infant industry considerations and progressively eliminating protection as the industry matures would improve the adjustment process in developing countries.

Trade relations between developed and developing countries will influence prospects for trade liberalization

38. The second major issue for the next round of trade negotiations is trade between developed and developing countries. At the last session of the CONTRACTING PARTIES in November 1984, developing member countries of the GATT issued a statement setting forth their main views: 1/ (a) they considered that the industrial countries had not observed the principle of the GATT ministerial declaration to make determined efforts to resist protectionist pressures and avoid measures inconsistent with GATT principles; (b) they urged the abolition of restrictions inconsis- tent with the GATT and the completion of the GATT work program agreed by the ministerial meeting; and (c) they declared their intention to parti- cipate in negotiations that would concentrate on removing restrictions on merchandise trade impeding developing countries' exports, without extending the scope of GATT rules to cover new areas such as services.

39. Statements made by several industrial countries at the GATT session, in contrast, urged an early launching of negotiations to liberalize trade in goods and services, and fuller participation of the developing countries in the new round. The most controversial issue during the GATT session was the question of the possible inclusion of services in the new round. In the compromise that was developed, some advance was made on future studies of the services sector by the GATT secretariat. However, the Chairman of the CONTRACTING PARTIES announced that this compromise did not prejudge any country's position on the possible inclusion of trade in services in the multilateral trading system.

1/ GATT document L/5744 (11/23/84).

40. The framework of rules governing trade relations between developed and developing countries has been under more or less continuous discussion since the inception of the GATT. Provisions have been incorporated in the GATT to allow developing countries to maintain trade restrictions for development purposes. In addition, in 1966, the GATT was amended by including Part IV in the General Agreement, whose main feature was an acknowledgement by the CONTRACTING PARTIES that developing countries should not be required, in the process of trade liberalization through successive negotiations envisaged by the framers of the GATT, to offer reciprocal concessions to the developed countries. 1/ Moreover, in the conduct of trade policy, developed countries were enjoined to take account of the special needs of developing countries, for example, in undertaking liberalization or imposing trade restrictions. As a result of these provisions for special and differential treatment of developing countries, the issue of the best way to encourage the expansion of trade between developed and developing countries came to occupy a special place in multilateral trade negotiations. With the export successes and industrial development of several developing countries, developed countries have suggested that developing countries should gradually assume a more central place in the multilateral trading system, in particular by taking an active part in the formulation and improvement of trade rules and by undertaking GATT obligations commensurate with their development needs.

41. Developing countries have over the years participated more actively in trade negotiations. During the Tokyo Round of trade negotiations in 1973-79, several major exporters among the developing countries participated in drafting the trade codes being negotiated. At the end of the Tokyo Round, 21 developing countries, whose exports account for three fourths of the combined exports of developing GATT members, adhered to one of the two protocols on tariff concessions negotiated in the Round, and 24 countries, with a nearly 80 percent share in developing country exports, signed one or more of the GATT codes on nontariff barriers.

42. Developing countries receive trade preferences from developed countries. Over the years, there has been considerable debate on strengthening preferential treatment versus trade liberalization on a nondiscriminatory basis. This important issue remains unresolved. In their 1982 report, the Commonwealth Expert Group addressed this issue as follows:

> The apparently conflicting objectives of preferences and non-discrimination, and the trade arrangements reflecting these orientations, have been considered with a view to identifying areas for rationalization. The long-term objective must be non-discrimination. We do not start with a tabula rasa, but with historically determined regional preferences to

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1/ The GATT enabling clause introduced in 1979 states that the "developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs."

developing countries. Some countries are likely to gain more from a universal application of non-discrimination than they would lose from giving up their preferences: if, however, universal non-discrimination cannot be guaranteed, these countries cannot be expected to enjoy losing advantages which they now possess. 1/

43. Given the impasse on reciprocity and special and differential treatment, a pragmatic and flexible approach appears inevitable. How the multilateral trade negotiations handle the delicate and complex issues involved in North-South trade will thus be a major determinant of the future strength of the multilateral trading system.

Decisions on strengthening the GATT could reinforce the viability of the multilateral trading system

44. The third main issue concerns the extent to which GATT discipline could be strengthened, so that the liberal trading system could better withstand any strains that may arise as a result of trade friction, slow economic growth, and the more diverse interests of governments in a multipolar world.

45. In successive rounds of trade negotiations, considerable attention has been focused on this question. In the past 35 years, significant success has been achieved in lowering tariff barriers and introducing a measure of discipline on nontariff restrictions. International trade rules have been adapted to meet the challenges posed by new issues--such as the inclusion of Part IV in the General Agreement, the tighter international discipline on the use of export subsidies, and the conclusion of GATT codes on a variety of nontariff measures during the Tokyo Round. At the same time, the recent developments outlined in section II obviously pose new challenges. GATT members agreed in 1982 to avoid introducing measures inconsistent with the GATT and to roll back such existing restrictions. In fact, there has been little progress on the standstill and rollback.

46. In recognition of the broader problems of the multilateral trading system, the Director-General of the GATT, late in 1983, appointed a Study Group on the Problems of the International Trade System--under the chairmanship of Mr. Fritz Leutwiler, to "identify the fundamental causes of the problems afflicting the international trading system and to consider how these may be overcome during the remainder of the 1980s." Its report is expected to be published shortly.

47. A crucial point, as governments consider issues relating to the trading system, is the extent to which the GATT could be strengthened as an international body with resources and authority to influence trade policy

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1/ Commonwealth Secretariat, Protectionism: Threat to International Order (London: 1982), p. 101.

formulation more directly. Owing to the failure of plans to establish an International Trade Organization soon after World War II, the General Agreement on Tariffs and Trade came into existence by virtue of a Protocol of Provisional Application. As a result, the functions of the GATT secretariat have not been elaborated in detail. 1/ Bilateral, sector-specific trade restrictions have proliferated not only because governments of exporting and importing countries have been unable to withstand the pressures for such bilateral accommodation, but also because the international interest in preserving the system is not brought to play before the process of accommodation reaches the stage of negotiated decisions, and frequently not even then. Improvements in the decision-making process that give a more effective voice to the international interest in a liberal trading order will add a critical element in ensuring more open trading conditions on a lasting basis. Regardless of the specific features of the rules on international trade, a more effective surveillance and monitoring mechanism based in the GATT will be required.

48. Toward this end, two elements are important: an increase in national governments' accountability for their trade and trade-related actions, as well as in the international community's adherence to the GATT system. This could be advanced in the relatively near future by providing the GATT secretariat with a mandate to undertake independent analysis, to propose options and solutions, and to advise on the implementation of trade policies on its own initiative, as well as at the request of contracting parties. Over the longer run, a strengthened GATT could involve establishing a stronger executive committee of GATT members for more regular formulation and interpretation of policy decisions to which national governments would be answerable. Another aspect of a strengthened GATT could be an improved dispute settlement procedure and provisions for following up settlements.

49. The effectiveness of improvements such as these would require the necessary political will and national government support.

Interlinkages with in a global round of negotiations will have a bearing on the scope and timing of liberalization

50. The fourth main issue is how a new round of trade negotiations will link different elements of the negotiations, and if it will be possible to proceed with implementation of actions to liberalize trade barriers in some areas, even before the conclusion of the negotiations as a whole.

51. Central to all recent multilateral trade negotiations has been the principle of reciprocity of mutual trade concessions. With the inclusion of nontariff barriers in trade negotiations, the effort to achieve "overall reciprocity" encourages trade-offs across a broader range of issues and trade

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1/ The functions of the GATT secretariat include "examining proposals submitted for the agenda of the CONTRACTING PARTIES, consulting contracting parties concerned, and submitting reports to the CONTRACTING PARTIES."

barriers than would be possible if governments sought to achieve a narrower balance of concessions in each area under negotiation. In principle, the concept of overall reciprocity thus makes it possible to achieve greater trade liberalization.

52. Although overall reciprocity is also likely to be a guiding principle for any future trade-negotiating round, it remains unclear how it will be translated into practice. Several features of the next round are likely to add to the technical and political complexities of achieving an acceptable mutuality of concessions on the basis of overall reciprocity. First, on issues such as safeguards and agricultural trade restrictions, the formulation of generally acceptable international discipline has eluded governments for several years. Discussions on strengthened discipline on safeguards, launched in the context of the 1973-79 Tokyo Round negotiations and continued in the GATT subsequently, have failed to develop a generally acceptable standard for whether temporary import restrictions designed to protect domestic industry from injurious import competition should be permissible only if applied on a nondiscriminatory basis, or whether selective (i.e., discriminatory) restrictions should be permitted against countries whose exports are judged to be primarily responsible for the injury to the domestic industry. Meanwhile, in the past decade, "gray area" and GATT-illegal measures such as bilateral export restraint arrangements have proliferated. In the area of agricultural trade, the recent compromise in the GATT considerably advances the prospects of meaningful trade liberalization. Nevertheless, whether issues such as safeguards and agricultural trade that remain largely unresolved from the previous trade negotiating round could or should be dealt with more expeditiously than other areas of interest in a new round has not yet been addressed or resolved.

53. Second, the issue of possible interlinkages in broader trade liberalization arises in the context of the Multifiber Arrangement, currently scheduled to expire in July 1986. GATT discussions on the future of the Multifiber Arrangement are expected to begin in mid-1985. The question that many governments face is whether decisions taken for textiles and clothing should form part of the new trade negotiating round, or be arrived at and implemented without directly linking possible liberalization in this sector with progress in other areas. Given that restrictions in this sector are directed specifically toward regulating exports of developing countries, the manner in which this issue is resolved could have a broader bearing on trade relations between developed and developing countries.

54. Finally, how possible negotiations in so-called "new" areas, such as trade in services, high technology goods, and others, are linked to the more traditional negotiations on tariff and nontariff trade barriers, is also likely to influence the pace and content of trade liberalization in the new round. A liberal environment for services is, in principle, desirable as a means of promoting the expansion of economic activity based on comparative advantage. Indeed, obligations of Fund members to maintain a payments system that is free of restrictions apply to all current transactions, including services. As a trade policy issue, however, it is widely acknowledged that preparatory work in the "new" areas is not yet sufficiently advanced to permit

an early start to actual negotiations. If this perception is valid, the question arises how the pace of overall negotiations will be influenced by the decisions made in these areas. Given the strongly divergent views of some governments on the feasibility and desirability of negotiations in "new" areas, a generally acceptable formula for dealing with them will be technically and politically difficult to devise.

55. Each of the successive rounds of trade negotiations has involved resolution of increasingly complex issues. The Kennedy Round of trade negotiations, launched in 1964, required four years to complete; the Tokyo Round, which placed even greater emphasis on liberalizing non- tariff barriers, took place over a six-year period. There is little doubt that a new round is likely to entail considerably more complex trade-offs. Even if substantive new negotiations could be launched within the next 12-18 months, it is difficult to be confident that the actual liberalization of trade resulting from the new round will take place before the end of this decade, or even in the early 1990s. A critical issue for governments is how this process can be accelerated.

PART B 1/

Trade, Protection and Development

I. Introduction

56. In the course of 1984 international trade expanded vigorously. Total orld exports are estimated to have risen by about 9 percent while developing country exports grew by about 8 percent. The main reason for the expansion was increased economic activity in both industrial and developing countries. Export growth for the developing countries was also the result of their adjustment efforts designed to increase efficiency and improve their capacity to service international debt.

57. Expansion of trade was not stimulated by major steps to liberalize trade. OECD countries took a few very modest steps aimed at liberalizing their trade with developing countries. Certain developing countries (for example, Korea and Turkey) also continued to liberalize their trade to enhance adjustment efforts and long-term growth. However, some industrial countries increased protection on steel and several developing countries increased protection in response to balance of payments difficulties.

58. Throughout the year the need for trade liberalization was highlighted in communiques of the OECD ministerial meeting, the Economic Summit, the Development Committee at its Spring and Fall meetings, and pronouncements in other international fora. Work continued in the GATT in pursuit of the GATT ministerial work program and in preparation for possible multilateral action in various areas such as agriculture, textiles and clothing, quantitative restrictions, "grey area" measures, and safeguards. At the GATT Contracting Parties meeting in November 1984, agreement was reached regarding arrangements within the GATT for a work program on trade in services, and new understandings were endorsed on quantitative restrictions and agriculture among other things.

59. At the same time, there was no major breakthrough that would permit the international community to reverse the drift towards increased protectionism of recent years and strengthen the trading system. Yet such a breakthrough is needed, for, as the Director General of GATT stated at the Development Committee meeting in the fall of 1984, "If the stalemate over efforts to improve the functioning of the multilateral trade system is not broken, it is very difficult to see how the current recovery of world trade can be sustained." 2/

60. Improved access to industrial countries' markets and outward-orientation of developing countries' trade policies would facilitate sustained

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1/ Prepared by the World Bank staff.

2/ Arthur Dunkel, statement at the Development Committee meeting of September 23, 1984.

increases in developing country trade. Increased developing countries' export earnings are an essential ingredient to alleviating debt servicing difficulties, strengthening their creditworthiness, and permitting a resumption of longer term growth. Reduced protection in industrial countries would also promote structural change and longer-term productivity growth in those countries. Industrial and developing countries' economic growth in the rest of the 1980s can be increased by strong action to liberalize and expand world trade.

61. The purpose of this part is to examine the issues underlying the stalemate in efforts to improve the functioning of the trade system and liberalize trade, especially in areas of importance to developing countries. The focus is on non-tariff measures (NTMs) that inhibit trade. Action on such measures is needed for a variety of reasons: they are an important source of economic distortions reducing efficiency and longer-term growth in developing and industrial countries alike; they are the most important set of restraints inhibiting access to industrial countries' markets, particularly in agriculture, textiles and clothing, and steel and have also been used in regard to footwear, electronic products, and a variety of consumer goods; they are often contrary to GATT provisions and thus weaken confidence in the workings of the trade system; finally, whether consistent with GATT provisions or not, they tend to be discriminatory in nature and thus undermine the fundamental principle of non-discrimination on which the GATT rests.

62. The paper touches on a number of related issues of concern about the international trade system such as safeguards, subsidies and countervailing duties. But it does not purport to present a comprehensive analysis of all the issues affecting developing country trade with industrial countries. In particular, it does not address issues involving industrial countries' tariffs, although tariffs (for example, on tropical products) and tariff escalation are of some importance to individual developing countries. Nor does it deal with trade in services - an issue of importance to some industrial countries. The focus is on non-tariff measures primarily because action in this area is of importance to both developing and industrial countries' economic growth and to the improved functioning of the international trade system.

63. This part first discusses a number of definitional issues pertaining to non-tariff measures. Subsequent sections present evidence on the prevalence of these measures and their costs both to the countries imposing them and to their trading partners. The last section discusses possible approaches to liberalizing trade affected by non-tariff measures. Throughout, the emphasis is on presenting issues that need to be resolved and possible alternative approaches for their resolution, rather than on making specific recommendations for action.

II. Definitions

64. There is only limited international consensus on what constitutes non-tariff measures impeding international trade. In part this is because

non-tariff restraints to trade are generally not permitted under the GATT except in specifically defined circumstances. Imposition of such measures by GATT members contrary to GATT provisions may give rise to claims by other contracting parties for compensation. Thus GATT members frequently deny that certain practices in which they engage and which restrict trade without the use of tariffs, constitute non-tariff barriers to trade. Also, measures such as price surveillance or sanitary restrictions which, while legitimate in themselves, may be used in ways that restrain trade, and de facto constitute non-tariff barriers to trade.

65. Over time countries have developed a whole range of practices limiting trade through the use of measures other than tariffs whose economic impact is similar or the same but whose legality vis-a-vis the GATT differs. 1/ The more transparent the measure, the more it is likely that it would have been taken consistent with GATT provisions and that it would have been recorded. The less transparent, the more it is likely to have been contrary to GATT provisions and that it may not have been identified or recorded. Thus, for countries or sectors whose trade is limited by transparent non-tariff measures taken consistent with GATT provisions, or under waiver, the impression may be created that a larger proportion of trade is affected by such measures than for other countries or sectors where less transparent measures prevail. It is therefore difficult to be sure that any particular compilation of non-tariff measures is comprehensive. Also, since under-recording of barriers varies from country to country, inter-country comparisons of trade affected by NTMs have to be made with extreme care.

66. Given the legal problems and technical ambiguities, it should be stressed that no information presented in this paper about non-tariff measures allegedly in place in a particular country implies an explicit or tacit agreement by the country that such measures constitute non-tariff barriers to trade. Data are presented irrespective of their conformity to legal provisions in the GATT or elsewhere. For purposes of analysis, evidence based on

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1/ In general, several categories of non-tariff measures can be identified depending on their relationship to GATT provisions: (a) measures which both the imposing country and other contracting parties agree are inconsistent with GATT provisions and no waiver or exception has been obtained; (b) measures which are compatible with GATT provisions - such as under Articles XI and XVIII; (c) measures which are in principle consistent with GATT provisions but whose actual administration may result in unduly reducing trade, e.g., sanitary provisions or countervailing duties or price investigations; (d) measures on which there is unresolved disagreement among GATT members as to their consistency with GATT provisions, or there is ambiguity as to their consistency with GATT provisions, such as voluntary export restraints; (e) measures which, while contrary to GATT provisions, have received explicit waivers or exceptions, e.g. the MFA; and (f) non-tariff measures imposed by countries not members of the GATT.

different compilations of non-tariff measures will be presented - some based on international and some on national sources.

67. The definition of non-tariff measures used here is broad. The aim is to cover all quantitative restrictions and other related border measures affecting imports, including restrictions maintained under GATT measures and other derogations or exceptions; such restrictions include measures imposed contrary to GATT provisions or involving non-GATT members, as well as voluntary restraint agreements, variable levies and charges, and minimum import price arrangements. 1/ More narrow definitions will also be presented for purposes of comparison.

68. Four broad groups of non-tariff measures will be distinguished:

(1) Quantitative import restrictions: including prohibitions, quotas, ceilings (specified in value or quantitative terms) imposed on the importation of products for a given period of time, and discretionary and other conditional import authorizations.

(2) "Voluntary" export restraints (VERs): Agreements between exporter and importer as to the maximum amount of exports (specified in value or quantity terms) to be effected within a given period of time. This category covers, inter alia, those measures employed for the administration of bilateral agreements on textile trade reached within the framework of the Multi-fibre Arrangement (MFA), i.e., specific limits, consultation levels and export controls. While voluntary export restrictions are administered by exporting countries, their imposition is the result of successful protectionist demands in importing countries.

(3) Measures for the enforcement of decreed prices: These include (a) variable import charges which serve to equalize the c.i.f. import price with a decreed internal price. Such levies are protective in that they are adjusted periodically in order to ensure that prices of imported goods are in line with domestic price targets; (b) minimum price requirements; and (c) "voluntary" export price agreements.

(4) Tariff quotas and related practices involving the application of two tariff rates, the higher rate being applied when the quantity of imported goods exceeds a specified level.

1/ This definition is akin to the definition used in the recommendations on Trade in Agriculture adopted by the GATT Contracting Parties in November 1984 - see GATT L/5753. The definition does not include non-border measures, such as those involving state-trading, internal subsidies, etc.

69. These measures are by their very nature unambiguous non-tariff restraints on trade - although their actual restrictiveness would tend to vary depending on how they are applied. There are some other trade measures, however, which would not normally be considered non-tariff restraints, but which could in practice be applied in ways which could have the same effect. These include: anti-dumping and countervailing duties, price investigations and surveillance, automatic import authorizations, sanitary regulations and technical standards.

(1) Anti-dumping and countervailing duties are duties levied on a product that is introduced into the commerce of the importing country at a price lower than its price in the exporting country (dumping) or a duty levied for the specific purpose of offsetting rebates or subsidies provided to production or export of these goods (countervailing). Under GATT provisions, such duties should offset distortions introduced in trade by exporting countries. There is considerable controversy surrounding the economic rationale of the countervailing-subsidy provisions in the GATT, which lies outside the scope of this paper. There is some evidence, however, that in practice these duties have been applied in certain circumstances in lieu of safeguards and with both the intent and effect of protecting domestic industry rather than simply offsetting distortions introduced by the exporter. 1/

(2) Price investigations usually are triggered by charges of domestic producers about unfair trading practices involving either dumping or subsidies by the exporting country. While it is clear that an investigation is necessary to determine the facts of dumping or subsidies, there is some evidence that the inquiry process itself has a protective effect, apart from the eventual findings. 2/ The filing of a petition for relief, its acceptance by government for investigation, and the lengthy investigative process generate uncertainty about the exporters' continuing access to the market which itself may have a protective effect and reduce imports. In the US the number of investigations far exceeded the positive findings in the period 1980-1983. Also, in some cases (for example, steel), price investigations were a prelude to the imposition not of countervailing duties but the negotiation of "voluntary" export restraints with clearly protective effects.

(3) Automatic import authorizations involve freely granted (unconditional) permission to import. Such licensing procedures are used either for surveillance of sensitive products or for other purposes such as statistical records or the administration of international agreements. How "automatic" these procedures are determines whether they are protective or not. Surveil-

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1/ J. M. Finger, H. K. Hall and D. R. Nelson, "The Political Economy of Administered Protection", The American Economic Review, June 1982, pp. 452-66.

2/ J. M. Finger, "The Industry-Country Incidence of 'Less than Fair Value' Cases in U.S. Import Trade", Quarterly Review of Economics and Business, Summer 1981, pp. 260-79.

lance may be the prelude to action and may itself be inhibiting to trade. There is some evidence that surveillance has been used for this purpose. 1/

70. Given the uncertainties surrounding specific practices under these last three sets of measures it is advisable to treat them separately from other non-tariff restraints to trade. Summary information about their general prevalence is presented in the Appendix Tables to this report. 2/ But given the legitimate role that such practices can play in trade, they have to be treated differently for policy purposes from other non-tariff measures. Consideration about how to reduce their protective impact should be a matter of assuring that in practice they are not used for protective purposes rather than that the measures themselves be reduced or eliminated.

71. The main conclusion to be drawn from this discussion is that while there is a consensus on some measures, such as the MFA, there are some uncertainties about what constitutes non-tariff measures impeding trade. There are also differences in their legal status and there are different views about how non-tariff measures, even if agreed that they exist, ought to be treated in GATT negotiations depending on their legality. Given these differences any discussion on their reduction and possible elimination will be exceedingly difficult and protracted.

III. The Role of Non-tariff Measures in World Trade

72. How much of all world trade is affected by different non-tariff measures and all of them taken together? Unfortunately there is no simple answer to this simple question. There are considerable methodological difficulties in measuring the prevalence of NTMs in practice (see Appendix). No single measure such as import coverage (the share of a country's imports, by commodity category subject to NTMs) is fully satisfactory by itself. Thus, in order to reduce the effects of the shortcomings of individual indicators, this study considers three indices of the prevalence of non-tariff measures: import coverage, world trade weighted coverage and frequency distributions of

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1/ See for example EC regulation 288/82 which explicitly refers to surveillance for this purpose. Official Journal of the European Communities, 1982.

2/ For lack of precise information, the use of sanitary regulations and technical standards for protective purposes is not included in the tables. The only country covered in the paper for which such information is available is Japan. According to UNCTAD, health, safety and other technical standards pertain to 48.5 percent of Japan's imports from industrial countries and to 17 percent of its imports from developing countries. See UNCTAD, "Problems of Protectionism and Structural Adjustment", Report by the Secretariat, Part I: Restrictions to Trade and Structural Adjustment TD/B/1039, January 28, 1985, Table 2.

non-tariff measures. None of the measures show the actual degree of protection provided by particular countries to individual sectors.

A. Protection in Industrial Countries

73. There is wide recognition that tariffs affect a small component of industrial countries' trade and production. Appendix Table 1 shows that for the US the EC and Japan duties on virtually all manufacturing commodities are less than 10 percent. In many cases where tariffs exceed 10-15 percent, such as in textiles, NTMs are the binding constraint on trade rather than the tariffs.

74. Table 1 shows the prevalence of NTMs applied by industrial countries based on information collected by UNCTAD. 1/ The results pertain to imports from various sources of all products other than fuels and provide information on the use of the four categories of non-tariff measures discussed in paragraph 13 above. Countervailing, anti-dumping and surveillance measures discussed in paragraph 14 are excluded from this table. While in the context of this study estimates of NTMs were made using different measures, it is believed that greater comparability of results is ensured if world trade weights are used to calculate the share of each country's imports subject to non-tariff restrictions. The Appendix discusses the measures used. Appendix Table 2 also suggests that use of different measuring techniques does not significantly affect the findings presented as to the overall prevalence of NTMs in industrial countries' imports.

75. Table 1 shows that, on a world trade weighted average basis, industrial countries control anywhere between 7 and as much as 24 percent of all their non-fuel imports through NTMs. 2/ The EC controls about 14 percent of its non-fuel imports through these measures, compared to 9 and 10 percent for the US and Japan. There are some differences within the EC, as the use of national non-tariff measures vary among the member countries. Not much should be made, however, of small differences in the prevalence indicators, because they are affected by the classification scheme utilized.

1/ These statistics are drawn from the UNCTAD data base on non-tariff measures, in which the data are presented by tariff line and reflect geographical discrimination between suppliers. The particular classification of the measures presented here and the interpretation and analysis of the results are the sole responsibility of World Bank staff. The UNCTAD data base is derived from national and international data sources, including the GATT. The methodology and the detailed results are reported in J. Nogues, A. Olechowski and L. A. Winters, "The Extent of Non-Tariff Barriers in Industrial Countries", World Bank, Washington, D.C., Development Research Department Discussion Paper #115, February 1985.

2/ Fuels are excluded from this table because while some countries impose quantitative or surveillance measures on the importation of fuels, the purpose is not protective. Inclusion of fuel does not significantly affect the overall findings of the analysis.

Table 1

PREVALENCE OF NTMs BY MARKET SUPPLIER [a]
All products less fuels; World trade weighted average; Percentages

Industrial Country Markets	All Countries [b]	Industrial Countries	Developing Countries (c) All	Developing Countries (c) Major Exporters of Manufactures [d]	Developing Countries (c) Major Borrowers [e]
EC	13.9	10.5	21.8	23.8	24.9
Belgium-Luxembourg	13.8	10.3	21.8	28.2	23.3
Denmark	12.7	10.4	29.5	36.5	37.5
France	17.2	13.1	25.5	24.6	24.5
West Germany	13.1	8.6	21.4	24.7	25.3
Greece	19.0	15.8	22.4	22.6	23.5
Ireland	10.8	8.0	16.5	17.3	23.4
Italy	11.7	7.9	16.4	13.9	16.7
Netherlands	15.1	11.3	24.0	28.3	33.4
United Kingdom	12.2	9.3	22.2	28.3	27.9
Australia	23.7	21.9	30.4	29.7	31.0
Austria	9.1	8.2	16.8	14.6	20.2
Finland	7.8	7.3	16.8	15.2	15.1
Japan	9.6	9.5	10.5	11.6	9.6
Norway	7.4	7.0	17.1	23.3	16.5
Switzerland	15.5	15.7	12.2	19.9	27.7
US	9.2	7.6	12.9	10.7	14.5
All Industrial Country Markets: [f]	13.0	10.9	19.8	21.1	21.9

(a) Source: These statistics are a product of joint World Bank-UNCTAD research. The calculation and interpretation of the statistics is solely the responsibility of the World Bank and should in no way implicate UNCTAD. The estimates are based on NTM and import data from the UNCTAD Data Base on Trade Measures (UNCTAD 1983). Import statistics refer to 1981 and NTMs to any of several years. All computations were performed at the tariff-line level and the results aggregated to the product groups shown.

(b) Including high-income oil exporting countries and centrally-planned economies.

(c) World Bank standard definition of developing countries (see World Development Indicators, World Development Report, 1984), less Greece, which, as a member of the EC, is treated as an industrial country for the purposes of these calculations.

(d) Argentina, Brazil, Hong Kong, Israel, Korea, Philippines, Portugal, Singapore, South Africa, Thailand, Yugoslavia.

(e) Argentina, Brazil, Chile, Egypt, India, Indonesia, Israel, Korea, Mexico, Turkey, Venezuela, Yugoslavia.

(f) Since the world trade weighted average calculates the proportion of world trade that would be affected by each country's NTMs, each country index is weighted by total world trade in calculating the aggregate. Thus this row reports merely the simple mean of the individual country indices above.

76. Just because NTMs of industrial countries affect a relatively small proportion of trade, does not imply that they are of limited concern. Table 1 shows that the share of restricted imports is larger in trade with the developing countries than in trade with the other industrial countries.

77. On the whole, the share of restricted imports is even higher for developing countries exporting manufactured goods. Manufactured imports from the developing countries are subject to restrictions to a greater extent than manufactured goods traded among the industrial countries. This is largely because of the regulation of textile imports from developing countries under the MFA. 1/

78. A partially overlapping group at least as much affected by NTMs is the group of the 12 most heavily indebted countries. On the average, about one-fifth of these countries' exports to industrial countries (excluding fuels) are restrained by NTMs, and in a few cases the figure is around one-third. This average is slightly higher than for all developing countries. The potentially adverse impact of NTMs on these countries' capacity to service their debt gives rise to an important link between trade reform and the functioning of the international financial system.

79. The GATT also compiles an inventory of Quantitative Restrictions, and for comparative purposes prevalence indicators have also been estimated using these data. The GATT inventory has a different coverage than that used above. 2/ Also, the GATT data are more aggregated than UNCTAD data, and rely solely on countries' own reporting of their restrictions. Appendix Table 3 shows prevalence indicators based on the GATT data, and based on the GATT definition but using UNCTAD data. As is to be expected, the indicators in both of these sets are generally smaller than the indicators in Table 1, but the broad country pattern is much the same.

80. A great deal of international trade, especially with developing countries, involves raw materials and metals which are not affected by any NTMs as defined here and where tariffs are generally low. Particular interest attaches to NTMs which pertain to trade in agricultural and manufacturing products, data on which are presented in Table 2. While again not much should be made of small differences in the data, a particular pattern seems to emerge.

81. First, it appears that NTMs may in general be more prevalent in agriculture than in manufacturing. For some countries, over 50 percent of the trade in agricultural products may be covered by NTMs.

1/ The exception is Japan, which imposes few limitations on textile imports.

2/ The GATT definition of QRs includes two additional classes of NTMs--state and sole agency trading arrangements, and liberal and automatic licensing--but excludes three others--tariff-type measures, variable levies, and the MFA.

82. Second, some large differences in patterns of NTMs emerge, with the US imposing fewer NTMs in agriculture than Japan and the EC. Also, NTMs on agricultural imports from other industrial countries appear to be more prevalent than on agricultural imports from developing countries. The converse is true in manufacturing.

83. Third, the extent of NTMs on manufactured imports appears to be smaller in Japan than in the United States and the EC. This conclusion is confirmed by results obtained by studies based on national sources as well as on information provided by the GATT. According to one study, in 1983, the share of manufactured imports subject to NTMs was 13 percent in the United States, 7 percent in Japan and 15 percent in the EC. 1/ The comparable figures derived from the UNCTAD data base are 12 percent for the US, 8 percent for Japan and 11 percent for the EC.

84. Different industrial countries have different preferences for the NTMs they choose to employ. For example, the US and the EC utilize VERs to restrain trade in manufacturing. Japan, often the target of VERs, tends to rely primarily on quantitative restrictions in both industry and agriculture. 2/

85. There are significant differences in the methods of protection by sector. In particular, voluntary export restraints are far more prevalent in manufacturing than in agriculture. In the latter case, the bulk of the restrictions stems from quantitative controls and the variable import levy system. Also, the impression is that developing countries' trade in manufactures tends to be more affected by VERs than industrial countries' trade. 3/

86. An important issue in recent periods has been the apparent increase in NTMs in industrial countries' markets. The analysis confirms that between 1981 and 1983, respectively the earliest and latest years for which there are complete data, every industrial country, except two, recorded increases in all indices of prevalence (see Appendix Table 5). While nothing should be made of differences of a few percentage points in prevalence across countries, changes of this magnitude through time for one country probably are of some

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1/ Bela Balassa and Carol Balassa, "Industrial Protection in the Developed Countries", The World Economy, June 1984, pp. 179-96. For the sake of comparability, the import coverage ratio has been used in these calculations. The authors have also calculated the ratio of consumption of restricted items to total consumption. In 1983, this ratio was 35 percent for the US, 28 percent for the EC, and 16 percent for Japan. The relatively high ratio for the US is explained, in part, by the high share of protected automobiles in domestic purchases.

2/ Appendix Table 4 disaggregates NTMs into the categories described earlier, and includes information on countervailing, antidumping, surveillance and similar measures (column 6).

3/ See Nogues, Olechowski and Winters, op. cit.

Table 2

PREVALENCE OF NTMs ON AGRICULTURAL AND MANUFACTURED GOODS, 1983 [a]
World trade weighted average; Percentages

Industrial Country Markets	Agricultural Imports from World	Agricultural Imports from Industrial Countries	Agricultural Imports from Developing Countries	Manufactured Imports from World	Manufactured Imports from Industrial Countries	Manufactured Imports from Developing Countries
EC	37.8	46.7	27.5	10.1	5.7	21.4
Belgium-Luxembourg	41.5	55.8	24.6	9.1	4.5	22.4
Denmark	40.8	47.6	38.2	7.9	4.3	27.8
France	36.6	45.8	26.6	14.1	8.8	27.6
West Germany	35.6	43.0	27.5	9.3	4.1	20.6
Greece	40.4	44.1	29.8	15.8	12.1	21.8
Ireland	32.3	46.7	16.3	7.8	4.2	19.9
Italy	36.3	38.3	35.5	7.7	4.2	11.6
Netherlands	41.4	52.1	27.5	10.6	5.8	23.7
United Kingdom	34.5	45.9	21.7	8.4	3.9	24.1
Australia	30.8	29.3	33.4	21.4	20.7	23.3
Austria	53.5	59.1	40.0	1.2	1.1	3.4
Finland	48.7	51.6	35.2	0.9	0.6	5.7
Japan	33.8	35.7	30.2	5.4	5.5	5.4
Norway	32.4	33.8	19.0	2.9	2.3	19.3
Switzerland	49.2	55.0	28.4	9.5	10.0	2.3
US	11.5	11.7	11.8	9.1	7.3	14.4
All Industrial Country Markets:	37.4	43.4	28.7	8.8	6.3	18.2

(a) For source, notes and definitions see notes to Table 1.

significance. This is because the recorded changes reflect only new measures, not any tightening of existing measures, and because institutional differences, which can distort inter-country comparisons, are unlikely to be important over a period of two comparison years. Thus the widespread increase in NTM coverage almost certainly reflects growing distortions to international trade.

B. Protection in Developing Countries

87. Developing country governments have also introduced a large and diverse set of measures to protect domestic economic activity. Comparable information on measures of protection for all developing countries is not available. In part this is because of the variety and frequent adjustment of policies. Nonetheless over the last decade substantial evidence has been compiled on the trade policy regimes in many developing countries. From these analyses it is possible to construct patterns of protection broadly characteristic of developing countries - recognizing of course that individual countries may well diverge from these general patterns.

88. Appendix Tables 6 and 7 present the results of recent studies on patterns of protection for primary and manufacturing sectors, as well as for export and import-competing activities in selected developing countries, incorporating the effects of tariffs and non-tariff measures. The evidence provided by these studies suggests several general conclusions.

89. First, rates of protection in developing countries tend on the whole to be substantially higher on average and more variable across economic activity than in developed countries. Second, there is great variation in the incentives provided to production in various sectors as measured by the effective rates of protection applicable to individual activities. Third, within this general variability of incentives, manufacturing tends to be favored over agriculture. Similarly, with rare exceptions, sales in domestic markets are favored over exports. There are also significant differences in protection depending on the stage of processing - with final goods activities receiving greater protection than intermediate and capital goods activities.

90. A distinctive feature of developing countries' regimes has been their heavy reliance on quantitative controls for the restriction of imports by means of licensing, quota and foreign exchange regimes. Evidence from such different countries as Ivory Coast, Mauritius, and Zambia indicates that protection through quantitative measures has often been superimposed on tariffs, and has raised the overall level of protection and its variability. 1/ Happily, some of these countries are in the process of removing their quantitative controls, with the support of the World Bank.

1/ See Neil Roger, "Trade Policy Regimes in Developing Countries", World Bank, Washington, D.C., mimeo, February, 1985.

Table 3

ESTIMATED EXTENT OF NON-TARIFF MEASURES APPLIED IN
SELECTED DEVELOPING COUNTRIES AND AREAS [a] IN 1984

NTM Category	Products	Frequency of Application	Percentage share of imports covered by NTMs from: All	Developed Countries	Developing Countries
Prohibition	All	11.2	5.9	7.2	3.4
	Agricultural	17.4	10.9	10.4	12.0
	Industrial	10.4	7.2	7.3	6.6
Quotas and licensing	All	26.3	14.3	15.8	11.2
	Agricultural	27.6	19.8	20.7	17.5
	Industrial	26.0	16.3	16.0	17.6

(a) Argentina, Brazil, Chile, Peru, Venezuela, Cameroon, Kenya, Malawi, Nigeria, Tunisia, Hong Kong, Philippines, Republic of Korea, Saudi Arabia, Singapore.

Source: UNCTAD, "Problems of Protectionism and Structural Adjustment", (Part I), TD/B/1039, January 28, 1985, Table 5.

91. Table 3, derived from the UNCTAD data base, shows the extent of non-tariff measures by 15 major developing countries which taken together account for 32 percent of all developing countries imports from industrial countries. NTMs by these countries generally covered a much wider range of commodities than in industrial countries and took the form primarily of quantitative restrictions and import prohibitions. 1/ The figures in the table tend to underestimate the extent of quantitative import restrictions in these countries because they exclude import programs that are designed to limit imports and by assuming that, within each four-digit tariff category, only one-half of imports are affected by a particular quantitative restriction. 2/

IV. Costs of Protection

92. The costs of protective measures can be considered from several analytical perspectives. There are costs incurred by the country imposing protection both in terms of static efficiency and welfare losses and in terms of longer term factors associated with productivity growth and capital formation. Alternatively, costs can be looked at from the standpoint of the exporting country again either in the context of static welfare losses or longer term dynamic effects on its income and output growth.

93. Most empirical evidence on the impact of non-tariff measures imposed by industrial countries relates to the costs that they themselves incur in imposing NTMs and to how they relate to benefits in terms of employment and incomes in the protected industries. Similarly, the analysis of trade regimes of developing countries has focused on the impact of these regimes on their own resource allocation and growth. A number of more recent investigations have explored the impact of alternative levels of protection in industrial countries on developing countries exports and growth. There is very limited information on the effect of protection in developing countries on industrial countries' exports and growth.

A. Costs of Protection in Industrial Countries

94. Assessing the incidence and costs of the variety of NTMs imposed presents difficult conceptual and measurement problems. For particular industrial countries, there is some evidence about the costs of measures restraining trade in specific sectors such as steel, footwear, textiles or particular agricultural commodities. But these can be used only as indicative measures of the costs involved.

1/ Prohibited imports could enter the country if certain conditions were fulfilled.

2/ See UNCTAD, "Problems of Protectionism and Structural Adjustment", Report by the Secretariat, Part I: Restrictions to Trade and Structural Adjustment, January 28, 1985, pages 14 and 15.

95. In broad terms, protection usually involves overall net losses both for the importing and the exporting country and transfers from consumers to producers in the importing country. In recent periods, the establishment of VERs has introduced a different dimension to the sharing of costs and benefits from protection. Under these arrangements, exporters sell their products at the higher prices prevailing in the protected market rather than at a lower price reflecting their cost of production. The "rents" obtained by exporters under the arrangement are paid by consumers in the importing countries who in effect make transfers both to domestic and foreign producers of these commodities.

96. Protection in industrial countries is typically imposed in order to support employment in the affected sectors. But the costs to the economy as a whole in maintaining this employment are always far in excess of the benefits accruing to those employed in the protected sector.

97. Earlier analyses of the effects of US tariffs and VERs in place in 1980 on television sets, footwear and carbon steel show that the cost to the consumer per job saved, varied between $74,000 and $110,000, with the ratio of this cost to average labor compensation ranging from three (carbon steel) to nine times (footwear). 1/

98. The NTMs on television sets and footwear have since been abolished while the protection on carbon steel has been modified. Table 4 provides various estimates of the costs of several VERs presently applied or proposed in industrial countries. 2/ The estimates of consumer cost of protection per job saved and welfare cost per job saved, particularly for automobiles, are at the lower bound of those available in recent studies. 3/ The consumer cost of protection per job saved is estimated at $109,000 for automobiles in 1984 and $95,000 for steel in 1985 in the US and $27,000 on textiles in 1979 in Canada. In all cases this cost exceeds average labor compensation by more than two times.

99. The welfare cost per job saved is estimated at $49,000 for automobiles and $71,000 for steel in the US and $14,000 for textiles in Canada. Such estimates are also available for textiles in 1980 in the US ($170,000) and the EC ($125,000).

1/ Michael C. Munger, "The Costs of Protectionism", Challenge, January-February, 1984, pp. 54-58.

2/ The methodology and more detailed results are contained in O. Kalantzopoulos, "The Cost of Voluntary Export Restraints for Selected Industries in the US and EC", World Bank, Washington, D.C., mimeo, November, 1984.

3/ See for example USITC, "A Review of Recent Developments in the US Automobile Industry", Preliminary Report No. 332-188, Washington, D.C., February, 1985, and D.G. Tarr and M.E. Morkre, "Aggregate Costs to the United States of Tariffs and Quotas on Imports", Bureau of Economics Staff Report, Federal Trade Commission, Washington, D.C., December, 1984.

Table 4

EFFECTS OF SOME MAJOR VERs IN INDUSTRIAL COUNTRIES [a]

	Textiles			Automobiles	Steel	Video Recorders
	USA 1980	EC 1980	Canada 1979	USA 1984	USA 1985	EC 1984
(1) Increased Payments on Domestic Goods, $ million	n.a.	n.a.	105.9	2,879.0	674.0	75.0
(2) Increased Payments on Imported Goods, $ million	988.0	1050.0	35.0	1,778.0	1,530.0	341.0
(3) Loss of Consumer Surplus, $ million	408.0	289.0 [b]	22.9	229.0	455.0	43.0
(4) Resource Cost of Producing the Additional Quantity Domestically, $ million	113.0	70.0	26.5	185.0	7.0	38.0
(5) Cost to Domestic Consumers, $ million, (1) + (2) + (3)	n.a.	n.a.	163.8	4,886.0	2,659.0	459.0
(6) Cost to the National Economy in the Protecting Country (Welfare Cost), $ million, (2) + (3) + (4)	1,509.0	1,409.0	84.4	2,192.0	1,992.0	422.0
(7) Jobs Saved through Protection, thousands	8.9	11.3	6.0	45.0	28.0	n.a.
(8) Consumer Cost Per Job Saved, $ thousand, (5):(7)	n.a.	n.a.	27.3	108.5	95.0	n.a.
(9) Welfare Cost Per Job Saved, $ thousand, (6):(7)	169.6	124.7	14.1	48.7	71.1	n.a.
(10) Average Labor Compensation, $ thousand, (annual)	12.6	13.5	9.8	38.1	42.4	18.6
(11) Ratio of Consumer Cost to the Average Compensation,(8):(10)	n.a.	n.a.	2.8	2.9	2.2	n.a.
(12) Ratio of Welfare Cost to Average Compensation, (9):(10)	13.5	9.2	1.4	1.3	1.7	n.a.
(13) Lost Revenues for Exporters, $ million	9,328.0	7,460.0	89.2 [c]	6,050.0	1,507.5	n.a.
(14) Ratio of Increased Payments on Imported Goods to Lost Revenues for Exporters (2):(13)	0.11	0.14	0.39	0.29	1.01	n.a.

(a) US Dollar estimates are evaluated at current prices for the years indicated.

(b) Foregone tariff revenues, due to the quota introduction, are not included.

(c) If both tariffs and quotas are removed.

Sources:

Morris E. Morkre, "Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong", Bureau of Economics, Federal Trade Commission, August 1984.

Carl Hamilton, "Voluntary Export Restraints on Asia: Tariff Equivalents, Rents and Trade Barrier Formation", Institute for International Economic Studies, Stockholm, Seminar Paper 276, April 1984.

Glen P. Jenkins, "Cost and Consequences of the New Protectionism", Harvard Institute for International Development, Development Discussion Paper 99, July 1980.

Robert W. Crandall, "Import Quotas and the Automobile Industry: The Costs of Protectionism", The Book Review, forthcoming.

Robert C. Feenstra, "Voluntary Export Restraints in U.S. Autos, 1980-1984", unpublished paper prepared for the NBER Summer Workshop, August 1984.

Louis L. Schorch, "The Effects of Import Quotas on the Steel Industry", Congressional Budget Office, July 1984.

Orsalia K. Kalantzopoulos, "The Cost of Voluntary Export Restraints for Selected Industries in the U.S. and the EC" World Bank, Washington, D.C., mimeo, November 1984.

U.S. Department of Labor, Bureau of Labor Statistics, "Hourly Compensation Costs for Production Workers in 24 Countries for Various Industries", Office of Productivity and Technology, unpublished data, April, 1984.

100. Part of the cost to the consumer and the national economy represents a transfer to foreign exporters in the form of higher prices. This rent, however, is offset by the loss of revenue associated with the decline in exports. As shown in Table 4, the ratio of the rent to the revenue loss is estimated for textiles at 0.39 in Canada, 0.11 in the U.S. and 0.14 for the EC. The corresponding ratios are 0.29 in the case of automobiles and 1.01 for steel in the US.

101. Some of the VERs, such as those on autos and steel are aimed at other industrial countries. Others such as the MFA concern the developing countries. All offer partial compensations to existing exporters since they obtain a portion of the rents resulting from the quotas administered by the importing country. However, they lock in the existing suppliers and disadvantage newcomers that develop the capacity and comparative advantage to break into the controlled markets. As a consequence a VER such as the MFA is potentially damaging to low-income countries in Africa; in turn, VERs in steel and autos, if retained, are a problem to present or future low-cost producers in the newly industrializing countries with the potential to expand their share of world trade in these products.

102. The costs of industrial country protection for agricultural products are also substantial. A recent study indicates that elimination of industrial country protection in the case of sugar and beef, could increase developing country foreign exchange earnings four to five times (see Table 5). The major beneficiaries would be India, Brazil and the Philippines in the first case and Argentina, Brazil and Colombia in the second. Several of these are highly indebted countries which recently experienced difficulties in debt servicing. Developing country exporters would obtain smaller gains in the event that protection was eliminated on wheat and maize, where developed country producers have large market shares. In addition to these gains, reduction in agricultural protection would result in increased stability in the international meat, grain and wheat prices. If the EC were to abolish the Common Agricultural Policy, according to one estimate the instability of international prices of meat could decrease by about 25 percent and by almost 50 percent for wheat. 1/

B. Costs of Protection in Developing Countries

103. The protective structure characteristic of developing countries' trade regimes discussed in Section III has led to distortions and to the deceleration of economic growth in those countries which have adopted it. The great variance in incentives among sectors has introduced inefficiencies in resource allocation; the biases against agriculture have retarded growth in agricultural output; and the bias in favor of import-substitution and against

1/ Kym Anderson and Rodney Tyers, "European Community Grain and Meat Policies and U.S. Retaliation: Effects on International Prices, Trade and Welfare". Centre for Economic Policy Research, ANU Discussion Paper No. 83, October 1983.

Table 5

EFFECTS ON THE DEVELOPING COUNTRIES OF THE REMOVAL OF PROTECTION ON SELECTED AGRICULTURAL PRODUCTS IN THE DEVELOPED COUNTRIES [a]

	Developing Countries Export Market Shares		Developing Country Producers: Changes in Foreign Exchange Earnings as a Percent of:		
	Before Removal of Protection (1)	After [b] (2)	Foreign Exchange Earnings Before Liberalization (3)	OECD Development Aid 1979-81 Average [c] (4)	Aid to Agriculture 1980 [d] (5)
Sugar	33	57	236-516	16-29	31-67
Beef	19	39	458-533	17-20	40-46
Wheat	6	11	146	5	11
Maize	12	12	52	2	6

(a) The estimates pertain to 1983 in the case of sugar and to 1980 in the case of beef, wheat, and maize.

(b) Estimates under the main variant. For sugar and beef, estimates obtained under alternative assumptions given in the source paper.

(c) Official development aid by OECD countries as reported in World Development Report, 1983, p. 182.

(d) Official aid commitments to agriculture as reported in OECD, Development Co-Operation, 1983, p. 138.

Source: Joachim Zietz and Alberto Valdes, "The Costs of Protectionism to Less-Developed Countries: An Analysis for Selected Agricultural Products", Washington, D.C., mimeo, January 1985.

exports has meant that fewer than appropriate reources were devoted to expanding export activities. 1/

104. The result has been that developing countries' export earnings have risen more slowly than would otherwise have been the case. Meanwhile, most import-substitution industries were "import-intensive", so demand for imports has continued to rise. As a consequence, import-licensing systems have become much more restrictive than originally intended; as foreign exchange scarcity has been perceived, licensing systems and other non-tariff measures have become more complex, and more costly.

105. Also, exchange rates have often been highly overvalued, part of the rationale being that importation of "essential goods" could thereby be encouraged. Thus, investment goods which have been permitted to be imported have been bought artificially cheap, often encouraging the use of capital-intensive techniques of production and reducing the demand for labor on the part of industrial enterprises. However, these same exchange rates have further discouraged exports, intensifying foreign exchange difficulties, and over time contributing further to the slowdown in imports and thus in investment and output.

106. These direct adverse consequences for growth, however, have only been part of the problem. In the longer run, import-substitution as a growth strategy has turned out to have further serious deficiencies. First, it has become harder and harder to sustain, as "easy" opportunities have been exhausted and as newer import-competing industries have been increasingly capital-intensive. Moreover, most developing countries have relatively small domestic markets for most industrial goods. Once import-substitution proceeds beyond consumer goods with a relatively large market even at low levels of per capita incomes, introduction of new product lines means having to increasingly forgo economies of scale. The modern industrial society is predicated upon its ability to produce and use a large number of differentiated sizes and shapes of commodities produced in reasonably large production runs; most developing countries markets are small so that production runs are very short, with attendant increases in costs. Since many of these products are inputs into the production of other industrial outputs, high prices have meant that even industries with export potential have been confronted with such high-costs inputs that they have been effectively precluded from competing on the international market.

1/ This section draws on A.O. Krueger and C. Michalopoulos "Developing Countries' Trade Policies and The International Economic System", Paper presented at ODC Seminar on US Trade Policy and Developing Countries, October 1984. See also A.O. Krueger, Trade and Employment in Developing Countries: Vol. 3, Synthesis and Conclusions (NBER and University of Chicago Press, 1983), and A.O. Krueger, Foreign Trade Regimes and Economic Development: Vol. 10, Liberalization Attempts and Consequences (NBER and Ballinger, 1978).

107. Secondly, automatic or quasi-automatic protection through non-tariff measures in a small domestic market has meant that domestic producers in many industries enjoyed monopoly, or near-monopoly, positions. Moreover, because of foreign exchange shortages, import licensing systems themselves tended to reinforce and rigidify existing market shares. At the same time, economic costs have been incurred in connection with the pursuit of rents derived from licences. 1/

108. Protection in developing countries restricts market access by industrial countries' exports and thus imposes costs on those countries. Importantly, it also discourages trade among developing countries themselves.

109. The consequences of these policies, especially in developing countries where the domestic market is relatively small, have been highly detrimental to sound growth. There has been little opportunity for efficient, well-managed enterprises to expand, and high-cost, inefficient firms have tended to retain their market shares. Incentives for quality control or for seeking lower-cost ways of production have been weak. Consequently, the phenomenon of high-cost, low-quality goods has become prevalent in many developing countries. Only after several countries changed their trade regimes has it become evident that, given appropriate incentives, developing country producers are capable of providing low-cost, high-quality output in a variety of industries. As the opposition in industrial countries to imports from some of the newly industrializing countries (NICs) attests, the more export-oriented countries have been able to compete quite satisfactorily once the incentive structure has been altered to permit adequate returns to exporting.

110. The adverse consequences of highly-protectionist regimes have been recognized in many developing countries. In some cases, there has been a genuine shift away from inefficient import-substitution policies. Their new strategy has typically involved the following key elements: protection of the domestic market has been greatly reduced, both in terms of its level and its dispersion across industries, exchange rates have been moved to realistic levels with assurance that they would remain there, and incentives for exporting have been raised to at least equal those for import-competing activities. When that shift has been achieved in ways that assure producers that incentives are likely to remain stable, the results have been dramatic. Idle capacity has generally been greatly reduced; output has risen sharply; and growth rates of both exports and GNP have jumped.

111. The available evidence indicates that economies where incentives were not biased against exports succeeded in maintaining higher GDP growth both before and after the "external shocks" of the last decade, even though they

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1/ Anne O. Krueger, "The Political Economy of the Rent-Seeking Society", The American Economic Review, June 1974, pp. 291-303.

faced large external shocks. 1/ During the 1973-78 period, on the average, outward-oriented countries reached economic growth rates 2 percentage points higher than inward-oriented countries, reflecting in part their overall trade policy stance and in part reliance on export-promotion in response to the external shocks associated with the quadrupling of oil prices and the world recession. By contrast, inward-oriented countries responded to external shocks by import-substitution and external borrowing.

112. The favorable results obtained under outward-orientation are explained by higher levels of efficiency in resource allocation, more rapid technological change, as well as greater flexibility in the face of external shocks. In turn, under inward-orientation, protection has involved a considerable economic cost, estimated to range between 5 and 10 percent of GNP, has not been conducive to productivity growth, and has imparted a certain rigidity to the national economy that has made adjustment to external shocks difficult. 2/

V. Protection and Structural Adjustment

113. The background papers prepared for Development Committee consideration on the medium-term prospects of the world economy stress the importance of continued efforts toward structural adjustment to the health of the international financial system and longer term economic growth. Structural adjustment is of importance for both industrial and developing countries. While there are differences in focus, an important dimension of structural adjustment in both sets of countries involves action to reduce protection. As such it means action to reduce and remove NTMs - the main forms of protection today.

114. In industrial countries, structural adjustment involves the relative decline over time of the proportion of resources allocated to low productivity sectors in both industry and agriculture where employment is being maintained in large part through a combination of non-tariff barriers to imports and domestic subsidies. It is only through such an adjustment that productivity and employment in industrial countries can resume a strong upward trend in the longer term.

115. Structural adjustment in developing countries, especially those facing serious external imbalances, fundamentally means a relative shift in resources from the home goods sector to the tradeable sector and especially to

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1/ Bela Balassa, "Exports, Policy Choices and Economic Growth in Developing Countries After the 1973 Oil Shock", World Bank, Washington, D.C., Development Research Department Discussion Paper #48, 1983; to be published in the June 1985 issue of the Journal of Development Economics.

2/ Bela Balassa, "Disequilibrium Analysis in Developing Economies: An Overview", World Development, December 1982.

the export sector. This shift requires a reduction of the bias of trade regimes against exports, through reductions in the level and variability of protection and the elimination of overvalued exchange rates. As well as generally promoting efficiency and growth in developing countries, trade liberalization would improve the prospects of indebted countries by encouraging the supply of direct investment and commercial bank funds to export-oriented industries.

116. Developing countries' efforts in accomplishing this shift would be facilitated by parallel action in industrial countries to open up their markets by reducing protection. Evidence presented in Section III suggests that NTMs in industrial countries are especially prevalent on the exports of the highly indebted countries. Action in the trade area would thus strengthen these developing countries' capacity to service debt and, for some countries with payments difficulties, would speed-up their return to creditworthiness. To the extent that protection in industrial countries forces developing countries to bear the burden of adjustment primarily through reductions in economic activity, or worse, additional protection to restrict imports, this has further adverse effects on industrial countries' export and output growth.

117. The 1985-1990 scenario discussed in the paper on the medium-term prospects of developing countries postulates that their exports over this period would need to grow in excess of 5 percent per annum in real terms to permit a GNP expansion of roughly 5 percent. 1/ It is assumed that such an export growth is feasible if protection in industrial countries' markets does not increase. Should protection increase, growth in developing countries is estimated to decline sharply, especially for highly indebted countries as lower export growth adversely affects their incomes directly as well as through a reduced capacity to service existing debt or attract new capital inflows. Conversely, a lower level of protection is shown to improve developing country prospects especially in the period beyond 1990.

VI. Approaches to Reducing NTMs: The Issue of Reciprocity

118. Action is needed in both developing and industrial countries on an urgent basis to reduce non-tariff barriers as a means of promoting structural adjustment, financial stability and longer term growth. The key question is how can this be accomplished at present.

119. Since it is in each country's own interest to liberalize its own trade regime, non-tariff barriers could be liberalized through a series of unilateral actions by individual countries. In practice such actions by industrial countries have been relatively infrequent in recent years. At the same time, while protection in developing countries has on the whole been higher and more widespread, several developing countries, often with the support and encouragement of the IMF and the World Bank, have taken steps to

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1/ See "From Recovery to Sustainable Long-term Growth", Background Paper prepared by World Bank staff for Development Committee Meeting, Spring, 1985.

liberalize their trade regimes on a unilateral basis in order to promote improved resource allocation and structural adjustment. Fourteen out of sixteen countries where Structural Adjustment Loans have been extended by the Bank during the period 1980-1984, undertook commitments aimed at liberalizing unilaterally their trade regimes over the medium term - frequently through reduction of non-tariff barriers to trade. On the other hand, others have taken steps, primarily because of short-term balance of payments difficulties, to restrict trade.

120. Most trade liberalization in the last 40 years has been undertaken in the context of the GATT and on a reciprocal basis. Reciprocity has been imbedded in the GATT Contracting Parties' commitments to reduce trade barriers on a reciprocal and mutually advantageous basis. Underlying this principle are both economic and political considerations. In economic terms it is clear that while the benefits from a country's own trade liberalization are substantial, they would be augmented by benefits derived from parallel liberalization in the markets of others.

121. The prospects for these gains were an important underlying force for reciprocal trade liberalization in past GATT rounds. In fact, increases in exports have been viewed as a benefit and increases in imports as a loss. Such a mercantilist view may be logically justified by reference to the economic gains from increased exports through higher capacity utilization and the exploitation of economies of scale as well as by the cost of adjustment and the political power of vested interests in import-competing industries.

122. The mercantilist argument has been a powerful force for mobilizing political support on behalf of both trade liberalization and adherence to GATT obligations in the conduct of trade policy. The support of export interests has been critical to the liberalization process of the GATT, because of the benefits they would obtain through the opening up of foreign markets. They also have been the main source of political support for adherence to GATT obligations in support of liberalized trade, in part because of the fear that derogations by a particular country would invite retaliation by its trading partners that would be harmful to export interests. The international obligations that countries have undertaken within the GATT have thus been used by pro-trade, export-oriented interests within individual countries as an important defense mechanism to fend off demands for protection by import-competing industries. In turn, the increase in the use of non-tariff measures by industrial countries, often contrary to GATT provisions or through GATT waivers, can be seen as evidence of increased relative strength of protectionist forces in these countries, especially during periods of economic recession.

123. Developing countries attitudes towards the principle of reciprocity within the GATT have been conditioned by their views on the principle of differential and more favorable treatment. The combination of reciprocity with differential and more favorable treatment in the GATT has had a variety of consequences for the trade barriers they now face and the measures of protection that they themselves have adopted.

124. First, differential and more favorable treatment has meant that they have not been prepared in past Multilateral Tariff Negotiations (MTNs) to offer equivalent concessions to those offered by industrial countries. This has been codified in the Framework Agreement following the Tokyo Round which states that "contracting parties may accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties." It was added that "the developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries; i.e. the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs." 1/ The agreement, however, also stated the expectation that the developing countries will be able to participate more fully in the framework of rights and obligations under the GATT with the progressive development of their economies and improvement in their trade situation. These provisions taken together lead to the concept of relative reciprocity, i..e., that developing countries depending on their stage of development provide some but not full concession in negotiations and participate partly - but not fully in the rights and obligations of Contracting Parties under the GATT.

125. Second, developing countries have been allowed different commercial policy, for example, under the infant industry clause or under the escape clauses pertaining to balance of payments problems. Many developing countries are also not members of the GATT or have taken protective measures without explicit reference to particular GATT provisions. On the export side developing countries, using a variation of the infant industry argument, have also maintained that they are unable to compete in international markets on an equal footing with established producers in industrial countries.

126. The perspectives on commercial policy underlying the developing country position on these issues are akin to those which led many developing countries to espouse import-substitution through protection - an approach which, as discussed in Part IV above, gave rise to serious development problems in many countries in earlier periods. While in recent periods several developing countries have liberalized their commercial policies in order to promote structural adjustment and growth, this changing perspective has not been reflected in significant changes in their attitude on differential and more favorable treatment within the GATT. It could be argued that developing country governments, by espousing an approach which released them from obligations not to protect under the GATT, has made it much harder for pro-export trade interests within their economies to exert an influence in the formulation of their commercial policy, making them easier prey to the protectionist pressures present in all economies. At the same time, in recent periods industrial countries' policies on NTMs or other barriers to trade which they have imposed, often contrary to GATT rules, have tended to provide

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1/ GATT, Agreements Relating to the Framework for the Conduct of International Trade. Geneva, 1979, pp.5-7.

greater ammunition to developing countries for their pursuit of protective restraints outside the GATT.

127. Third, the GATT provisions on differential treatment have led developing countries to apply pressure for unilateral trade concessions from industrial countries. The Generalized System of Preferences (GSP), introduced following an UNCTAD initiative in 1968 under a GATT waiver, represents a major achievement of developing countries in this respect.

128. The principle of reciprocity found its fullest expression in negotiations on tariff reductions, undertaken in the framework of the GATT during the postwar years. Reciprocity is a subjective concept that has not and cannot be applied with great precision.

129. Many developing country members of the GATT did not participate actively in the GATT negotiations. Those that did offered concessions usually of a lower value than those they received from industrial countries. For example, the US during the Kennedy Round reduced its tariffs vis a vis developing countries on $546 million of imports while receiving concessions on $205 million of developing countries' imports. 1/ Though comparable information on the Tokyo Round is not readily available, it would appear that developing countries offered fewer tariff concessions than in earlier negotiations. It should be added, also, that, during the Tokyo Round, concessions of a mixed kind were exchanged, with the US offering trade concessions in exchange for developing countries' commitments in other aspects of the negotiation. Developing countries, on the other hand, took an active part in negotiations on non-tariff codes, and some of them signed the codes.

130. While tariff reductions were extended to the developing countries under the MFN clause, their relatively limited participation in the negotiations meant that there was less incentive for the industrial countries to reduce tariffs on items of interest to these countries. Also a disproportionate number of exceptions to the across the board tariff cuts in the Kennedy and Tokyo Rounds were for product groups of special interest to the developing countries. As a consequence, tariffs on items of interest to developing countries remained higher than other products. 2/

131. Had developing countries been more actively involved in seeking to reduce trade barriers in previous MTNs, more significant reductions might well have been made in the barriers on labor-intensive products of interest to them. For example developing country participants in the Kennedy Round

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1/ J. M. Finger, "Trade Liberalization: A Public Choice Perspective", in R. C. Amacher, G. Haberler and T. D. Willett (eds.), Challenges to a Liberal International Economic Order, Washington, D.C.: American Enterprise Institute, 1979, p. 431.

2/ GATT, The Tokyo Round of Multilateral Trade Negotiations, Geneva, April 1979.

received concessions from the US on 33 percent of their exports to that market, whereas non-participants received concessions on only 5 percent. 1/ Moreover, differential treatment had the important shortcoming that it removed pressure from developing countries to reduce their own trade barriers.

132. Also, of course, consistent with the principle of differential treatment, developing countries have received some benefits from the GSP. However, there is extensive evidence that the benefits of GSP are relatively limited in absolute terms and concentrated on a few economies which appear well-positioned to compete in international trade without preferences, e.g. Korea and Hong Kong. The bulk of these benefits stem from the reduction in protection rather than from the granting of preferential margins. 2/ At the same time, the potential gains of developing countries from an MTN with wide product coverage would far outweigh the negative impact from erosion of existing preferences. 3/ It is a moot point, whether the limited benefits a few developing countries have enjoyed under the GSP are less than what all developing countries might have gained through a more comprehensive MTN process. The key question is the direction in which the system moves now, and how can the principle of relative reciprocity be applied in ways which help in the overall liberalization of trade.

VII. The Present Situation

133. Indeed, as stressed earlier, there are excellent reasons why both industrial and developing countries should consider unilateral trade liberalization at present. The issue that developing countries need to address is whether liberalization of sensitive sectors by industrial countries is more likely to occur on a unilateral basis, as they have suggested in recent GATT pronouncements, or on a negotiated basis.

134. Industrial countries' protection through NTMs today is concentrated in a few sectors where there are significant adjustment problems. It may be much more difficult to gain political support for the reduction of this hard core protection than it had been in reducing tariffs in previous periods. Thus it would be more important for the governments of industrial countries to be able to demonstrate to their export interests that they "gained" certain

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1/ J.M. Finger, ibid., p.435.

2/ Andrė Sapir and Lars Lundberg, "The U.S. Generalized System of Preferences and Its Impact," in Robert E. Baldwin and Anne O. Krueger (eds.), American Trade Relations, University of Chicago Press, forthcoming.

3/ Robert E. Baldwin and Tracy Murray, "MFN Tariff Reductions and LDC Benefits under GSP", Economic Journal, vol.87, March 1977, pp. 30-46; and Thomas B. Birnberg, "Trade Policy Options: Economic Effects on Developing and Developed Countries", in Policy Alternatives for a New International Economic Order (William R. Cline, ed.), New York, 1979, Praeger, ch. 3.

important concessions through access to markets of developing countries. This, in turn, suggests that the developing countries, while still within the context of differential and more favorable treatment, may have to undertake much more substantial reductions in their own trade barriers, than had been the case in earlier rounds. Thus, there are questions as to how far significant unilateral liberalization in industrial countries, although obviously desirable for their own growth, can go. Continued trade restrictions in developing countries on individual products and sectors frustrate and weaken the support of trade liberalization among potential exporters in industrial countries and lend support for the maintenance or intensification of "reciprocal restrictions" on imports from developing countries.

135. Because the role of developing countries in world trade has so greatly expanded, a more propitious basis may now exist for more symmetrical trade negotiations in the interests of both industrial and developing countries. In 1983, industrial countries provided outlets for 58 percent of developing countries' exports, excluding raw materials, fuels, and ores and minerals that generally enter duty free. The ratio was even higher, 61 percent for manufactured goods. 1/ The share of the developing countries in the extra-regional exports of manufactures from the industrial countries 2/ rose from 37.4 percent in 1973 to 47.4 percent in 1978 and, again, to 49.0 percent in 1981, with incremental shares of 54.4 percent in 1973-78 and 52.5 percent in 1978-81. 3/

136. Manufactured exports from the developing countries to the industrial countries have grown rapidly over time and have come to account for a rising share of domestic output in the former. Thus, the share of exports to industrial countries in the production of manufactured goods in the developing countries increased from 7.3 percent in 1973 to 10.4 percent in 1978 and to 12.5 percent in 1981, with incremental shares of 13.3 percent in 1973-78 and 19.5 percent in 1978-81. 4/ Given their greater export orientation, it can be

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1/ GATT, International Trade 1983/84, Table A2. The data for the developed countries include Yugoslavia but exclude Australia, New Zealand and South Africa.

2/ Excluding trade within the EC and the European Free Trade Association (EFTA) as well as trade between the United States and Canada, much of which takes place within multinational firms and is not subject to tariffs in the framework of the U.S.-Canada Automotive Agreement.

3/ Bela Balassa, "Trends in International Trade in Manufactured Goods and Structural Change in the Industrial Countries", World Bank, Washington, D.C., Staff Working Paper No. 611, 1984, Table 4. A decline occurred in 1983, due to substantial cuts in imports by countries such as Brazil and Mexico, but this can be expected to be temporary.

4/ Bela Balassa, "Trade and Trade Relations between Developed and Developing Countries in the Decade Ahead", OECD Economic Studies, Autumn 1984, p.15.

expected that these ratios are considerably higher for the more industrially advanced developing countries than for others.

137. Finally, many developing countries desire to rationalize, improve the transparency and diminish the protection provided through their trade regimes. While liberalization in some developing countries has been arrested recently because of financial difficulties, it is bound to restart as their financial difficulties abate; indeed it is necessary for effective longer term adjustment. Obtaining reductions in industrial countries protection should thus be viewed by developing countries, desirous to undertake trade reform, as an extra benefit for steps they would have wanted to take in any case.

138. These reasons would tend to suggest that reductions of NTMs could be accomplished through negotiations within the GATT. Developing countries, however, have not in general been supportive of an early start of a new GATT negotiation round that would include all NTMs. They have argued that prior to the start of a new round the work program initiated following the GATT Ministerial of 1982 must be completed, especially as it affects developing countries trade. Moreover, industrial countries must eliminate trade measures inconsistent with the GATT which restrict developing countries trade and refrain from imposing new ones. 1/

139. Their hesitancy about initiating a new round reflects several concerns: First, that notwithstanding their increasing role in international trade, they are still economically weak by comparison to the industrial countries and that a bargaining process between such unequal partners would result in a disproportionate share of the benefits going to the industrial countries.

140. Second, developing countries, particularly in light of the balance of payments difficulties they are facing at present, believe they cannot be reasonably expected to import more: they import as much as their foreign exchange availability permits them to.

141. Finally, they are uncertain about industrial countries' intentions and in particular their willingness to make concessions in the context of a new round in sectors of importance to developing countries, but where they face serious structural problems, such as textiles and steel.

142. If the developing countries' traditional concern about inequality in the bargaining process leads them to abstain from the multilateral bargaining process, then industrial countries may bargain on a bilateral basis on trade matters of importance to them. As a consequence developing countries may miss an opportunity to promote reduction in trade barriers of importance to them.

1/ See GATT "Improvement of World Trade Relations Through The Implementation Of The Work Programme of GATT", L/5744 November 23, 1984.

143. At the same time, developing countries' earnings of foreign exchange are themselves affected by the restrictiveness of their own trade regimes through the impact of differential incentives on the allocation of resources between exports and import-competing activities. Thus, while developing countries may indeed import all they can, they can import more if they and the industrial countries liberalize because this would induce an expansion of their exports. The expansion of exports may occur with a time lag while imports tend to expand more quickly and international financial institutions stand ready to supply financing in support of such liberalization as appropriate. However, in the present context, multilateral liberalization of NTMs is bound to be a prolonged process with the impact on imports likely to be felt no sooner than in the 1990s. Thus, the current balance of payments difficulties encountered by some developing countries would appear to impose more of a psychological and political constraint to participation in an NTM round than a financial one.

144. Recent actions by industrial countries to increase protection do raise concerns, however, as to their intentions in such a round and whether they would be willing to take steps to dismantle NTMs protecting sensitive sectors.

145. If developing countries were to decide to participate in a round of negotiations on NTMs, the question they would need to address is the basis of their participation. In the context of such negotiations, countries at lower levels of development may wish to retain the principle of relative reciprocity, as articulated in paragraph 5 of the "Framework Agreement". However, within the context of such a principle, the developing countries need to reach a judgment as to how actively they use this opportunity to improve access to industrial countries' markets as well as improve their own adjustment process.

146. Given the extensive degree of protection characterizing developing countries' trade regimes today, the provisions of paragraph 5 of the "Agreement" are consistent both with token participation and liberalization of developing countries' imports as well as with extensive reform and liberalization - provided of course industrial countries are prepared to do the same. What they decide in this respect would affect industrial countries' decisions and the scope of trade liberalization that may be possible in the medium term. In reaching this judgment the role played by the major exporters of manufactures among developing countries will be important. The exports of these developing countries are more frequently affected by industrial countries' NTMs, these countries usually possess the largest markets for industrial countries' products and, most importantly, they are at a higher level of industrialization than the other developing countries.

VIII. Modalities for Multilateral Liberalization

147. A meaningful standstill on further protection has been seen as a starting point for an effort to dismantle trade measures. Such a standstill commitment has been proposed from time to time by the OECD countries - only to be broken as protective pressures arose in particular countries and

industries. If a meaningful standstill could be established, questions then arise as to the specific approaches to be used in the fundamental task of liberalizing NTMs on a multilateral basis.

148. There is relatively little experience in the reduction of non-tariff measures through a process of multilateral negotiation. At the same time, the variety of the measures used - some affecting quantities and some affecting prices or other administrative practices - make it difficult to determine the size of equivalent benefits from a liberalization effort for various participants.

149. Two types of NTMs have been identified from the economic point of view: those that operate through limitations on quantity - including VERs, quantitative restrictions, prohibitions; and those that operate through pricing - such as variable levies, minimum prices. There are also practices such as countervailing and anti-dumping actions, price investigations, and surveillance, which may be used for protective purposes. Liberalization would need to take different approaches, depending on the nature of the practice involved. In legal terms there is also another kind of breakdown: whether a particular NTM is consistent with GATT provisions.

150. In analyzing liberalization of NTMs on a multilateral basis within the GATT, several fundamental issues need to be addressed. First, what modalities can be used to reduce NTMs, whether consistent with the GATT or not; second, what importance is attached to changing the character of NTMs so that they become consistent with GATT provisions, relative to efforts made to actually reduce the protection afforded by such measures; third, what steps can be taken to assure that legitimate commercial policy practices are not abused to provide protection; fourth, what safeguards are necessary to assure that liberalization obtained through negotiation is long-lasting and not undermined by proliferation of new protective practices in the future.

A. Liberalizing QRs and Similar Measures

151. The dismantling of quantitative import restrictions on trade among European countries after the Second World War first occurred in the framework of the Organization for European Economic Co-operation and later in the GATT. Reciprocity was introduced as the individual countries accepted the obligation to liberalize their trade restrictions in a parallel fashion. This was done by setting numerical targets for simultaneously reducing the share of intra-European imports subject to quantitative restrictions on food and feedingstuffs, raw materials and manufactured products in each country. 1/ The procedure applied appears to have been motivated by balance-of-payment considerations, and exceptions were also made on balance-of-payments grounds. Concentration on the short-run objective of balance-of-payments

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1/ For a detailed discussion, see Isaiah Frank, The European Common Market - An Analyses of Commercial Policy, New York, Praeger, 1961, Chapter I.

equilibrium did not obscure, however, the long-term benefits that the individual countries were to derive from the removal of their own restrictions.

152. There is a question as to how such a technique might be applied at present in negotiations between industrial and developing countries. The former's protection is very much concentrated in specific sectors while developing countries' NTMs affect most sectors. It is in principle, however, possible to develop approaches where one country or set of countries liberalizes quantitative arrangements across the board while others liberalize in specific sectors.

153. The sectoral approach has its drawbacks. While it is possible to focus on liberalization in a particular sector, such an approach taken in isolation may narrow the opportunities for reciprocity. If protection in a sector is concentrated in one group of countries, the opportunities for bargaining within the sector may be limited; they could be broadened if liberalization in other sectors or across the board is considered. Also, a sectoral approach may be used in ways that do not provide for meaningful liberalization. This need not pose a problem, however, if the sectors affected by liberalization in the industrial countries are the ones in which NTMs at present provide a high degree of protection. Indeed, some of the current work within the GATT is sector-oriented: while there is a group focusing on non-tariff measures in general, there are separate groups on the MFA and on agriculture.

154. The MFA is one set of pervasive NTMs of particular importance to developing countries since it explicitly discriminates against them. Notwithstanding the benefits some of them derive through higher rents, continuation of the MFA in its present form is bound to entail significant costs to producers and consumers alike. Apart from traditional and newly-emerging producers, the MFA is harmful to low-income countries, such as those in Sub-Saharan Africa, which have the potential to produce and export competitively in the future. The arrangement expires in July 1986, so it is necessary to reach agreement between now and then as to its future.

155. Signatories may wish to do nothing and extend the MFA in its present form. Such an outcome would be clearly a setback for forces of trade liberalization in all countries. In turn, possible approaches to liberalization include expanding specific quota limits without a presumption that the MFA would be terminated. Alternatively, the MFA may be continued for a predetermined period during, or at the end of which all MFA restrictions would be fully eliminated. This would not mean total elimination of protection in textiles and clothing as these sectors would continue to be protected by tariffs, which are relatively high by industrial country standards. Nonetheless, the presumption at the end of the period would be that GATT members would have to meet provisions such as those under GATT Article XIX, if they were to impose new restrictions in the sector.

156. There is also the question of what steps, if any, developing countries might take in the context of the liberalization of the MFA. In principle,

developing countries could offer reductions in the protection they impose in this or other unrelated sectors. Some liberalization within the sector, however, may be helpful in reaching agreement to terminate the MFA. The textile and clothing industries in the industrial countries have made common cause for restrictions, even though technological changes have rendered textile production in these countries increasingly competitive. A phased elimination of non-tariff measures and reduction of relatively high tariffs on textiles by the developing countries - especially the more industrially developed - may make it possible for textile interests in industrial countries to accept a phase-out of existing MFA barriers. Such a move may also be helpful to low-income countries which might be able to gain better access to the markets of other developing countries and increase their exports of lower valued clothing and to a lesser extent textiles, with the industrial countries specializing at the high-end of the product lines and the more industrially advanced developing countries also upgrading their exports.

157. The more industrially advanced developing countries would further benefit from trade liberalization by the industrial countries in steel and in automobiles, although for the time being industrial country exporters would be the principal beneficiaries. This conclusion also applies to cereals, while for the bulk of agricultural products developing countries, often the poorest among them, would derive the greatest benefits through the elimination of NTMs by the industrial nations. Such would also be the case for a variety of nondurable consumer goods, including shoes, ceramics and flatware, to which NTMs are applied by some industrial countries but not by others.

158. While the concentration of their NTMs in particular sectors calls for the application of a sectoral approach to trade liberalization in the indus-trial countries, an across-the-board approach may be applied in developing countries where NTMs are not limited to particular sectors. Across-the-board trade liberalization may be undertaken by taking the obligation of transferring a particular proportion of items from the prohibited to the restricted list and from the restricted to the free list. This approach has been used in recent years by Korea, Morocco and Turkey.

159. The process of progressive enlargement of the quantities permitted to be imported can be applied to VERs as well as other types of QRs. In cases of prohibitions or licensing requirements, it may be possible to first change them into global quotas which could then be enlarged over time until they are no longer constraining trade.

160. An alternative approach would be to convert quantitative restrictions into equivalent tariffs, followed by a progressive reduction of the tariffs. This approach has merits in that it promotes the introduction of greater transparency into the system. Nonetheless, it has important shortcomings. To begin with, it is difficult to estimate tariff equivalents of quotas. Moreover, tariffs, once imposed, may be difficult to reduce. It might be practically more advantageous and promote liberalization faster if NTMs are liberalized and tariffs reduced simultaneously. World Bank experience in this area suggests that it has been possible to reduce protection in both areas at the same time.

161. Whichever approach is used it would be necessary to introduce reforms over a period of time to permit a smoother adjustment of domestic industries to import competition. Flexibility would also be enhanced by permitting liberalization in different sectors to occur at different speeds; or if a country agrees to liberalize across the board by a certain average, to permit it to vary within limits the percentages by which individual quotas are liberalized.

B. Price Controls

162. Liberalizing NTMs that work through price arrangements is complicated by the fact that the protective effect of these mechanisms is hard to identify and tends to vary year by year - or even seasonally. Most of these measures affect agricultural trade. There has been no readily identifiable experience with liberalization of these measures as part of a multilateral process. One possible approach might be the undertaking of commitments by the governments imposing the levies or minimum prices to progressively lower internal prices to world price levels at a predetermined schedule - while they substitute, if necessary and appropriate, other measures of support. Another, perhaps more cumbersome, approach might be to resort to the well-established GATT procedure of requests and offers.

C. GATT Provisions

163. A large number of NTMs are contrary to GATT rules. A recent survey by the GATT of NTMs, which while comprehensive was not all inclusive, showed that most developing and industrialized countries imposed NTMs on at least some products without attempting to justify them in terms of particular GATT provisions. Over half of the developing countries reporting cited no GATT article or provision as justification for any of the NTMs they imposed. It is also unclear, of course, whether the justification of NTMs under specific articles offered by many countries would stand up under challenge or close scrutiny.

164. The widespread evasion of the system is detrimental to the transparency of world trade. There may be value therefore to having NTMs which are contrary to GATT provisions be converted to measures that are consistent - or to have members provide justification for the measures they take under the GATT.

165. But there are limits to the usefulness of such efforts if not accompanied by actual liberalization. The issues arising out of the conversion of quotas to tariffs were discussed earlier. In addition, GATT provisions give developing countries wide discretion under the differential and more favorable principle in the conduct of their commercial policy. They could readily justify QRs under Articles XVIII, XI and XX and many of them do. The key to future liberalization in many areas is the willingness of both industrial and developing countries to reduce and abstain from using NTMs for the good of their economies irrespective of what existing legal provisions or their relative economic power permit them to do.

D. Countervailing, Subsidies, Anti-Dumping, and Related Measures

166. In recent periods countervailing and anti-dumping actions and price investigations by industrial countries have significantly increased especially in manufacturing while safeguard proceedings have been reduced. There are strong inferences that the industries seeking action under the countervailing provisions are doing this as an alternative to seeking safeguard relief. Relatively few of these petitions are actually approved. But the effect of the investigations themselves is protective - irrespective of the final findings - which also may or may not be protective in intent or nature. In other industrial countries surveillance is administered with a view to ensure that quantities and/or prices of imports are consistent with unofficial targets or understandings with importers. All of these practices result in increased protection although their original purpose may well be legitimate. Appendix Table 4 shows that in some industrial countries the prevalence of such measures is just as important as the more obvious NTMs on which this paper has generally focused.

167. The area of countervailing actions and subsidies is itself controversial in terms of the economic rationale underlying the legal provisions, including the Subsidies Code governing these issues. This is a complex topic whose full analysis lies beyond the scope of this paper. Here the more limited question is addressed of what can be done to limit the use of countervailing and similar actions for protective purposes.

168. First, internally, approaches may need to be explored to make the process of price investigations more costly to domestic producers so as to reduce the incentives to seek such investigations to cases with a reasonable basis and thus limit disruption to trade. Second, externally it might be necessary to increase the active monitoring and surveillance of such actions by the GATT as well as strengthen the latter's dispute settlement procedures (see below) in order to reduce the likelihood that countervailing and anti-dumping provisions are not abused and other legitimate surveillance measures are not used for protective purposes. Third, the establishment of an effective safeguard code for legitimate cases of injury to domestic industry may serve to weaken the tendency to seek countervailing actions or other similar measures. Fourth, action needs also to be taken on the side of exporting countries to reduce the provision of subsidies *pari passu* with the liberalization of trade.

IX. Linkages

169. While action to reduce NTMs is important, it should be viewed in the context of action on other trade issues of importance to developing countries as well as other economic policy steps that affect developing countries' growth prospects. At the same time, all such actions can be supportive of steps to improve the financial prospects of developing countries. On the other hand, actions which improve the balance of payments prospects of developing countries help improve the environment within which they may be able to undertake steps to liberalize trade.

170. First, within the area of NTMs itself there are important linkages. A key issue is the relationship between action on the MFA, on which work should be completed by the time the current agreement expires in mid-1986, and other areas of non-tariff measures where work is not as advanced. One might not wish to delay the liberalization process in the MFA in anticipation of other efforts to liberalize. Indeed, early agreement to eliminate the MFA would be helpful to setting the proper tone for other liberalization. Conversely, continuation of the MFA in its present form will not augur well for action in other areas.

171. Second, there are potential linkages between the liberalization of NTMs and action in other areas of trade of interest to developing countries. One such area is tropical products. While considerable progress in reducing barriers to trade in these products was accomplished during the Tokyo Round, impediments to imports in industrialized countries continue to exist. Another area is tariff escalation. At present such escalation exists in both industrial and developing countries. In both cases it will be of greater importance if non-tariff barriers, which at present tend to impart the major protective effect in the final goods sectors, are actually diminished.

172. Third, action on NTMs needs to be supported by action to develop an effective code on safeguards. Article XIX of the GATT permits a country to impose safeguards if imports are causing or threatening a serious injury to domestic industry. The application of Article XIX is, however, subject to several conditions and has been bypassed by countries imposing import restrictions in large part to avoid abiding by these conditions.

173. Despite protracted negotiations, no agreement was reached on a new safeguard code in the Tokyo Round. The establishment of an effective safeguard mechanism is, however, necessary, both to avoid taking measures that do not conform to GATT rules and to ease the adjustment to freer trade following the elimination of NTMs under multilateral negotiations. A new GATT safeguard code would need to address a number of issues such as: (a) the question of how to give the standard of "serious injury to domestic producers" greater precision than it now has under Article XIX, what factors need to be taken into account in determining injury, and how injury is to be demonstrated; (b) the domestic procedures required to ensure the transparency of the safeguard process. Is it possible, for example, to assure that domestic and foreign producers be given the right to present their views through public hearings before an independent body? (c) the mechanisms that need to be developed to ensure that all safeguard measures are brought under the surveillance and scrutiny of the GATT; (d) develop approaches to ensure that safeguards are time limited and degressive; and (e) how to resolve the impasse over the demand by some countries that they impose safeguards on a selective basis.

174. Fourth, there is a need for improving existing procedures for the settlement of trade disputes. This is necessary for the effective application of the safeguard mechanism as well as for dealing with conflicts that may arise in other areas, such as export subsidies, countervailing action to such subsidies, and the application of anti-dumping duties.

175. Fifth, there is the question of linkages between unilateral trade liberalization undertaken by developing countries and any trade negotiation process that develops. It is desirable that an approach be established whereby developing countries would get "credit" for such liberalization efforts in any subsequent multilateral negotiations. Otherwise, incentives may be created to not undertake or postpone urgently needed policy reforms for adjustment in anticipation that trade concessions could be extracted from industrial countries at some future date.

176. Finally, there are links between trade reform and availability of external finance on appropriate terms. Trade reform in developing countries is essential for improvements in creditworthiness and longer-term growth. On the other hand, improved balance of payments through trade liberalization by the industrial countries and the increased availability of external finance can ease the adjustment problems and create a better environment within which to take the hard decisions to reduce protection.

X. Conclusions and Issues for Discussion

177. The analysis above provides extensive evidence of the extent and importance of NTMs imposed by both industrial and developing countries in restricting trade and the significant costs countries incur as a consequence of such protection. This paper and others prepared for consideration by the Development Committee also argue that increased worldwide protection would have seriously detrimental effects on developing countries growth prospects as well as undermine their capacity to service external debt - and thus have adverse repercussions on the international financial system. On the other hand, reduction in worldwide protection most of which takes the form of NTMs holds promise for increasing the growth of both industrial and developing countries.

178. Given the critical role that trade plays in developing countries' prospects, an effective standstill on further protection by industrial countries would be a promising first step. But beyond any standstill there is the basic need to take strong steps to reduce protection imposed through NTMs in both industrial and developing countries. An important question to be addressed in this context is whether such liberalization can be expected to occur on a unilateral or multilateral basis, or both.

179. Past experience suggests that a multilateral approach can be an effective means for trade liberalization. A second issue for discussion then is whether, within the context of multilateral negotiations, industrial countries would be prepared to take steps to liberalize trade in "sensitive" areas of importance to developing countries. A signal that they would be prepared to do so may make an important contribution towards dispelling developing countries concerns about such negotiations.

180. Active participation of developing countries in multilateral negotiations, albeit within the context of reciprocity conditioned by differential and more favourable treatment, is necessary in order to assure liberalization of items of importance to their trade.

181. Developing countries' past emphasis on differential and more favorable treatment has probably resulted in their missing significant opportunities both to liberalize their own trade and to increase their access to industrial countries' markets. A third issue for discussion then is the extent to which developing countries would be willing to reduce their NTMs, increase their transparency and increase their commitments under the GATT, notwithstanding the continuation of the principle of differential treatment. A fourth issue is the desirability of reducing remaining tariff barriers to trade, for example on tropical products.

182. Perhaps the most urgent trade question that needs to be addressed by the international community within the GATT is the future of the MFA. Progress on the MFA discussions may just provide the impetus to launch a wider liberalization effort. Continuation of the MFA in its present form will not augur well for further action to reform the international system. A key issue for discussion thus is the industrial and developing countries' views on the future of the MFA and what can be done to promote future liberalization of trade in textiles and clothing.

183. This paper concludes that a multilateral approach to reducing NTMs while potentially of great significance is likely to be complex and protracted. Its benefits are not likely to be realized until the early 1990s, even if negotiations were to start very shortly. An important issue then is what can be done in the interim. Clearly, there is scope for further unilateral liberalization in both industrial and developing countries which would contribute positively to longer term structural change in all countries. A meaningful unilateral liberalization by industrial countries in a sector of importance to developing countries may just be the kind of signal that could permit an effective negotiation for broader trade reform. Is such a signal possible at present?

184. Trade liberalization by individual developing countries is essential to their future growth. A final set of issues for possible discussion relate to actions to encourage and support developing country trade liberalization: First, what steps might be appropriate to help increase the availability of external financing to developing countries committed to sound trade liberalization? Second, how are liberalization measures that developing countries undertake on their own to receive appropriate recognition in the context of multilateral negotiations in the event such negotiations are initiated? Finding constructive ways to address all these issues will go a long way to restoring the momentum for trade reform and liberalization, and will contribute substantially to the long-term growth prospects of the developing countries and the world economy.

Appendix

Methodological Note

There are three main measures of prevalence of non-tariff measures: (a) the import coverage, which shows the value of a country's imports by commodity category subject to NTMs relative to the total value of a country's imports; (b) the frequency ratio indicating the number of tariff line items subject to restriction relative to the total tariff line items; and (c) the world trade weighted import coverage, i.e., the value of trade restricted by commodity category in each country weighted by the share of that commodity in world trade. Any of these can be applied to total imports or to any particular product category.

The import coverage indicator has obvious shortcomings; a country whose restrictive actions are more stringent will import less of the restricted commodities than a country whose actions are more liberal. Suppose a particular importing country A imposes a complete ban on imports from country B, resulting in no imports from that country. Conversely, another importing country C introduces quotas that apply to all categories of goods from country B but at levels so liberal that they do not in any way affect import levels. By using the import coverage measure, country A would appear to pursue non-restrictive policies since its coverage would be zero, and country C, highly restrictive - 100 percent - exactly the reverse than in practice.

The frequency ratio, indicating the share of tariff items subject to restrictions, does not have this shortcoming but it fails to reflect the relative importance of the items in question in international trade.

Greater comparability of results is ensured if world trade is used to calculate the share of items subject to restrictions, although this indicator has the deficiency of ignoring differences in the relative importance of the various items in the trade of individual countries. It is also subject to technical difficulties in deriving world trade data on countries' individual trade classifications; these are most severe for the US and the iron and steel industries.

The methodological problems of measuring the incidence of non-tariff barriers in world trade are discussed in "Quantification of Protection: Issues and Methods", International Monetary Fund, mimeo, September 1984, and in Nogues, Olechowski and Winters, op. cit. The latter also gives precise details of the indices used in this paper.

Appendix Table 1

TARIFFS ON MANUFACTURED IMPORTS [a]
Percentages

Tariff	United States	Canada	European Community	Japan
Average, all imports	4.6	7.3	5.2	6.8 [b]
Average, imports from developing countries	6.8	11.0	4.9	7.3 [b]
<u>Frequency by category</u>				
Less than 5 percent	72.5	25.0	45.0	43.8
5-10 percent	16.3	48.8	46.3	35.0
10-15 percent	7.5	15.0	8.8	11.3
15-20 percent	2.5	6.3	0.0	1.3
Over 20 percent	1.3	5.0	0.0	8.8
<u>Frequency by import value</u>				
Less than 5 percent	84.3	17.3	45.5	36.8
5-10 percent	7.2	70.2	48.1	49.8
10-15 percent	3.5	5.9	6.4	7.1
15-20 percent	0.2	3.9	0.0	1.2
Over 20 percent	4.8	2.8	0.0	5.0
<u>Frequency by value of imports from developing countries</u>				
Less than 5 percent	69.1	28.4	49.5	25.1
5-10 percent	10.5	33.2	38.1	56.5
10-15 percent	5.7	8.3	12.4	13.1
15-20 percent	0.3	7.2	0.0	1.9
Over 20 percent	14.4	22.9	0.0	3.4

(a) International Standard Industrial Classification (ISIC) 3111-3909, excluding petroleum refiners, 3530. The tariff rates are for post-Tokyo Round duties after full implementation of regulated reductions. The rates include zero tariff on nondutiable items.

(b) Excludes tobacco, 3140.

<u>Source</u>: William R. Cline, <u>Exports of Manufactures from Developing Countries: Performance and Prospects for Market Access</u>, The Brookings Institution, Washington, D.C., 1984, p.52.

Appendix Table 2

THE PREVALENCE OF NTMs, 1983 - THREE INDICES [a]
All products less fuel; All countries; Percentages

Industrial Country Markets	Coverage Ratio	World Trade Weighted Average	Frequency Ratio
EC	15.3	13.9	11.7
Belgium-Luxembourg	27.2	13.8	10.7
Denmark	13.0	12.7	10.9
France	14.7	17.2	15.0
West Germany	13.8	13.1	12.1
Greece	17.5	19.0	11.4
Ireland	8.8	10.8	8.5
Italy	13.1	11.7	9.2
Netherlands	23.3	15.1	12.2
United Kingdom	12.5	12.2	11.7
Australia	20.2	23.7	16.5
Austria	5.2	9.1	5.2
Finland	3.8	7.8	2.9
Japan	16.9	9.6	9.3
Norway	5.8	7.4	9.7
Switzerland	14.3	15.5	9.9
US	12.1	9.2	5.9
All Industrial Country Markets:	13.9	13.0	10.3

(a) For notes and definitions see notes to Table 1.

Appendix Table 3

A COMPARISON OF GATT AND UNCTAD DATA ON NTM COVERAGE, 1983 [(a)]
World weighted average; All products less fuels;
All countries; Percentages

Industrial Country Market	Data source:	UNCTAD		GATT
	NTM definition:	World Bank [(b)]	GATT	GATT
EC		13.9	7.3	4.6
Belgium-Luxembourg		13.8	7.4	2.3
Denmark		12.7	5.7	6.1
France		17.2	12.6	6.7
West Germany		13.1	5.7	2.3
Greece		19.0	12.3	8.1
Ireland		10.8	3.9	7.6
Italy		11.7	4.8	3.1
Netherlands		15.1	7.4	2.4
United Kingdom		12.2	5.8	3.6
Australia		23.7	20.6	5.6
Austria		9.1	8.2	5.0
Finland		7.8	14.6	4.9
Japan		9.6	9.5	3.4
Norway		7.4	14.4	6.9
Switzerland		14.3	25.7	16.8
US		12.1	5.4	6.8 [(c)]
All Industrial Country Markets:		13.0	10.2	5.7 [(d)]

(a) See text for explanation and notes to Table 1 for definitions and notes.
(b) Excluding "other border import control measures".
(c) Differences in classifications prevent the calculation of precisely comparable figures for the US. The quoted figure is based on 4-digit SITC(R) trade data and makes no allowance for the different geographical coverage of different NTMs; see L.A. Winters, "The bilateral negotiation of non-tariff barriers", World Bank, Washington, D.C., mimeo.
(d) Simple average.

Appendix Table 4

PREVALENCE BY TYPE OF NTM, 1983 (a)

All products less fuels; All countries; World trade weighted average; Percentages

Industrial Country Markets	Price Measures: Tariff type (1)	Price Measures: Decreed prices (2)	Quantity Measures: Quantitative import restriction (3)	Quantity Measures: Voluntary export restriction (4)	Sum of columns (1) to (4) (b) (5)	Other border import control measures (c) (6)	Sum of columns (5) and (6) (b) (7)
EC	2.5	6.7	5.0	2.5	13.9	11.6	21.0
Belgium-Luxembourg	2.4	6.9	5.5	2.0	13.8	13.1	22.0
Denmark	3.1	6.6	3.1	2.4	12.7	8.1	18.0
France	1.9	6.8	9.7	2.4	17.2	20.6	31.2
West Germany	2.9	7.3	3.0	2.8	13.1	10.0	19.9
Greece	2.6	6.2	9.8	2.4	19.0	12.4	25.8
Ireland	2.2	6.4	1.9	2.0	10.8	10.9	17.8
Italy	1.9	6.9	2.9	2.5	11.7	4.9	13.3
Netherlands	2.6	6.7	5.8	3.1	15.1	13.0	22.6
UK	2.9	6.1	3.4	2.8	12.2	11.4	18.8
Australia	5.1	0.9	18.2	0.0	23.7	4.5	26.6
Austria	1.7	5.3	6.2	0.2	9.1	1.0	10.1
Finland	1.1	3.3	7.1	0.3	7.8	6.8	14.3
Japan	0.9	0.0	8.9	0.0	9.6	0.0	9.6
Norway	0.2	1.5	7.2	0.0	7.4	0.0	7.4
Switzerland	0.2	1.0	14.4	0.0	15.5	12.9	26.0
US	0.7	0.5	2.2	6.7	9.2	3.4	12.3
All Industrial Country Markets:	2.0	4.5	6.8	1.8	13.0	8.3	18.5

(a) For notes and definitions see notes to Table 1.

(b) The figures in this column are less than the sum of those in the columns reported because some trade flows face several barriers.

(c) Countervailing and anti-dumping duties, price surveillance, price investigation, quantity surveillance and automatic licensing.

Appendix Table 5

CHANGES IN THE PREVALENCE OF NTMs, 1981-83 [(a)]
All products less fuels; Changes in percentage points

Industrial Country Markets	Coverage ratio			World trade weighted average			Frequency ratio		
	all countries	industrial countries	developing countries	all countries	industrial countries	developing countries	all countries	industrial countries	developing countries
EC									
Belgium-Luxembourg	1.9	2.0	1.0	1.6	1.5	1.1	1.3	1.0	1.4
Denmark	2.9	2.8	1.1	1.6	1.8	1.2	1.4	1.2	1.3
France	2.6	1.9	3.2	2.5	2.0	3.5	1.9	2.0	2.3
West Germany	2.0	1.8	1.0	1.8	1.4	1.0	1.3	1.3	1.2
Greece	2.2	2.2	1.6	2.4	1.8	3.0	1.4	1.3	1.5
Ireland	3.7	2.8	2.9	1.9	1.6	1.4	1.1	1.0	1.2
Italy	1.8	1.3	2.2	1.4	1.2	1.6	1.5	1.5	1.7
Netherlands	2.0	1.7	1.1	1.9	1.7	1.3	1.0	1.0	1.0
United Kingdom	2.7	1.2	1.8	1.4	0.8	1.1	1.0	1.2	0.9
Australia	1.4	1.7	-0.2	3.0	3.2	2.2	-0.8	-0.9	-0.7
Austria	0.2	0.0	3.2	0.1	0.0	1.8	0.2	0.0	1.0
Finland	-9.0	-8.6	-7.5	-8.3	-7.7	-8.4	-17.9	-17.2	-18.1
Japan	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Norway	-0.3	-0.5	1.1	-0.2	-0.5	1.9	0.1	-0.1	1.6
Switzerland	2.4	2.5	0.6	1.9	2.1	0.4	1.1	0.8	2.2
US	1.0	0.1	0.4	0.3	0.5	0.0	0.6	0.6	0.5

(a) For notes and definitions see notes to Table 1

Appendix Table 6

INCENTIVES TO PRIMARY AND MANUFACTURING
ACTIVITY, SELECTED DEVELOPING COUNTRIES

Country (Year) Activity	Nominal Rate of Protection (%) Average	Range Min.	Range Max.	Effective Rate of Protection (%) Average	Range Min.	Range Max.	No. of Sectors
Brazil (1980/81)							
Primary	-16 (b)	-38	0	-8	-39	-1	3
Manufacturing	20 (b)	-70	153	44	-82	279 (a)	67
Colombia (1979)							
Primary	17 (b)	15	20	39 (b)	22	88	5
Manufacturing	33 (b)	11	72	55 (b)	25	127	29
All Sectors	26	9	72	44	9	127	38
Egypt							
Agriculture (1981)	np	np	np	-24 (b)	-60	50	16
Manufacturing (1980)	np	np	np	34 (b)	-94	355 (a)	12
Korea (1982)							
Primary	66	np	np	74	np	np	np
Manufacturing (c)	19	np	np	28	-30	100 (a)	17
All Sectors	32	np	np	49	np	np	np
Mexico (1980)							
Agriculture	12	np	np	20	np	np	1
Manufacturing	10	-66	64	37	-32	249	16
Nigeria							
Agriculture (1980)	15 (b)	-47	141	-17 (b)	-23	95	7
Manufacturing (1979/80)	42 (b)	0	500	232 (b)	-38	2,149	109
Peru							
Primary production	np	np	np	18	np	np	1
Manufacturing (c)	np	np	np	74	27	121	21
Philippines							
Agriculture (1973-79) (d)	-2 (b)	-27	20	10 (b)	-27	241	14 (e)
Manufacturing (1974)	46 (b)	-6	249	44	-49	18,758 (a)	108 (e)
Turkey							
Agriculture (1978)	26	-57	300	40	-63	289	23
Manufacturing (1981)	32	-22	133	81	-52	1,266 (a)	66
West Malaysia (1974) (c)							
Primary	5	2	10	5	2	11	4
Manufacturing	25	2	140	39	1	307	29
All sectors	15	2	140	14	1	307	33

np Not published.
(a) Range extended by cases of negative value added in world prices.
(b) Simple average excluding cases of negative value added in world prices.
(c) Domestic market sales only.
(d) Nominal Rates of Protection for 1981-82.
(e) Sectors for which effective rates of protection are available.
Source: Neil Roger, "Trade Policy Regimes in Developing Countries", World Bank, Washington D.C., mimeo, February, 1985.

Appendix Table 7

INCENTIVES BY MARKET/TRADE ORIENTATION,
SELECTED DEVELOPING COUNTRIES

Country (Year) Activity	Nominal Rate of Protection (%) Average	Nominal Rate of Protection (%) Range Min.	Nominal Rate of Protection (%) Range Max.	Effective Rate of Protection (%) Average	Effective Rate of Protection (%) Range Min.	Effective Rate of Protection (%) Range Max.	No. of Sectors
Brazil (1980)							
Domestic sales	23	-18	97	na	na	na	21
Export sales	21	10	36	na	na	na	21
Indonesia (1975)							
Importables	43 (a)	-24	412	58	-24	4,315 (b)	65
Import competing	48 (a)	-24	412	61	- 9	4,315 (b)	55
Import non-competing	16 (a)	- 4	48	9	-24	411	10
Exportables	- 4 (a)	-15	8	- 2	-35	15	15
All Manufacturing	34 (a)	-24	412	30	-35	4,315 (b)	80
Ivory Coast (1978)							
Domestic Sales	61	26	129	na	na	na	6
Export Sales	1	- 2	63	na	na	na	6
Malaysia (1982)							
Non-exporting	21	na	na	47	na	na	na
Exporting	10	na	na	12	na	na	na
Import non-competing	19	na	na	42	na	na	na
Import competing	16	na	na	24	na	na	na
Morocco (1978)							
Domestic sales	21	na	na	25	-17	165	18
Exports	-1	na	na	-17	-52	- 6	11
All Manufacturing	20	na	na	19	-18	165	18
Nigeria (c) (1979/80)							
Export-oriented	na	na	na	-15	-54	1,119	22
All Manufacturing	na	na	na	82 (a)	-62	1,119	107
Peru (1981)							
Domestic sales	na	na	na	74	27	121	21
Export sales	na	na	na	8	-52	23	21
Philippines (1974)							
Non-exportables	na	na	na	61	na	na	na
Import competing	na	na	na	37	na	na	na
Import non-competing	na	na	na	148	na	na	na
Exports	na	na	na	4	na	na	na
Sri Lanka (1979)							
Importables	26	-39	98	39	-68	400 (b)	19
Exportables (d)	12	0	43	23	-24	83	13
Exports	8 (a)	0	24	0 (a)	-13	42 (b)	11
All Manufacturing	24	-39	98	38	-68	400 (b)	20
Turkey (1981)							
Domestic sales	34	-22	140	93	-90	1,128 (b)	66
Export sales	7	0	16	- 6	-60	172	52
All Manufacturing	32	-22	133	81	-52	1,266 (b)	66

na Not available.

(a) Simple average excluding cases of negative value added in world prices.

(b) Range extended by cases of negative value added in world prices.

(c) Net effective rate of protection adjusted for assummed exchange rate overvaluation.

(d) Domestic market sales only.

Source: Neil Roger, "Trade Policy Regimes in Developing Countries", World Bank, Washington, D.C., mimeo, February, 1985.