IV Implications for Developing Countries

Recent Developments

Export performance of developing countries is affected by many factors, such as the domestic policies adopted, the growth of demand in industrial countries' markets, and the incidence of protectionist practices. While the relative importance of trade restrictions abroad varies for each developing country, it is widely recognized that a sustained acceleration of economic growth in developing countries would be difficult to achieve in the absence of reasonable growth in their exports. Thus development prospects depend crucially on the openness of foreign markets.

Tables 4–6 and Tables 32 and 33 in Appendix V present data on the evolution of developing countries' international trade in the 1970s. The growth in volume of developing countries' exports slowed considerably in the 1970s, along with the slowdown in world trade. According to data compiled by the GATT, the share of oil exporting countries in world exports increased from 7.5 per cent in 1973 to 13.0 per cent in 1979; in contrast, the share of non-oil developing countries fluctuated in the range of 11.5–12.5 per cent and in the last three years remained unchanged at 12.5 per cent. There was no significant shift in non-oil developing countries' share in total imports of industrial countries, which remained at about 12 per cent. Although oil exporting countries' imports expanded sharply after 1973, non-oil developing countries' share in them remained virtually unchanged.

Increased economic interdependence through the expansion of international trade in manufactures is reflected in recent World Bank estimates of import penetration ratios in industrial countries. Between

Table 4. Commodity and Regional Composition of World Trade, 1973–79[1]

	1973	1974	1975	1976	1977	1978	1979
Commodity composition							
	(In billions of U.S. dollars)						
World exports[2]	574	836	873	991	1,125	1,300	1,625
	(Percentage shares)						
Agricultural products	21.0	18.0	17.0	17.0	17.0	16.0	16.0
Minerals (other than fuels)	6.0	6.0	5.0	4.0	4.0	4.0	4.0
Fuels	11.0	20.0	19.0	20.0	19.0	17.0	20.0
Manufactures	61.0	55.0	57.0	57.0	58.0	60.0	58.0
Regional composition							
	(Percentage shares in total world exports and imports)						
Industrial countries							
Exports	68.0	63.0	64.0	63.0	62.5	65.0	63.5
Imports	69.5	69.0	64.5	66.5	66.0	65.0	67.0
Oil exporting developing countries							
Exports	7.5	13.0	13.0	13.5	13.0	11.0	13.0
Imports	3.5	4.5	6.5	6.5	7.5	7.5	6.0
Other developing countries							
Exports	12.0	12.0	11.5	12.0	12.5	12.5	12.5
Imports	14.5	16.0	16.0	15.0	15.5	15.5	16.0
Eastern trading countries							
Exports	10.0	9.0	10.0	9.5	9.5	9.5	9.0
Imports	10.0	9.0	10.5	9.5	9.5	9.5	9.0

Source: GATT, *International Trade, 1978/79* and *International Trade, 1979/80*.
[1] For classification of countries, see Appendix II.
[2] Includes commodities not classified according to kind.

Table 5. Industrial Countries: Share of Imports in the Apparent Consumption of Manufactured Goods, 1970–79
(In per cent)

	Share in Apparent Consumption				Growth of Import Shares	
	1970		1979		1970–79	
	All imports	Imports from developing countries[1]	All imports	Imports from developing countries[1]	All imports	Imports from developing countries[1]
Australia	20.8	2.1	24.3	5.3	2.8	12.0
Canada	26.1	1.2	36.3	2.3	3.0	6.6
European Community	18.9	2.7	29.6	4.7	5.3	6.4
Belgium	61.7	5.6	70.7	4.6	1.2	−0.5
France	12.1	2.1	16.0	2.9	3.3	5.0
Germany, Fed. Rep. of	19.3	2.3	30.3	4.5	5.2	8.4
Italy	15.1	2.1	29.3	4.8	7.3	9.3
Netherlands	41.2	4.9	53.6	9.0	3.0	7.2
United Kingdom	16.3	3.3	27.2	5.5	6.3	4.1
Japan	4.5	1.3	5.7	2.3	1.8	5.5
Sweden	31.0	2.8	38.7	4.1	2.3	3.5
United States	5.4	1.2	9.6	3.0	6.6	11.3
Industrial countries	10.6	1.7	16.8	3.4	5.1	8.1

Source: Data provided by the World Bank.
[1] Includes oil exporting developing countries.

1970 and 1979, the proportion of imports in apparent consumption of manufactured goods rose from less than 11 per cent to almost 17 per cent. In 1979, developing countries accounted for less than 4 per cent of apparent consumption of manufactures in these countries.

As shown in Table 6 and in Appendix V, Table 33, non-oil developing countries' exports of manufactures increased rapidly in 1973–79, both in absolute terms and as a proportion of their total exports. Over the same period, their imports of manufactures also rose sharply, and their trade deficit on manufactures widened from $27 billion to $71 billion. Within the general category of "manufactures," some important shifts occurred in individual product categories. Both exports and imports of engineering goods increased very rapidly, and the widening of developing countries' trade deficit in engineering goods accounted for most of the deterioration in the overall trade deficit in manufactures. In contrast, non-oil developing countries' exports of clothing increased by much more than their imports, while in textiles their exports and imports increased by about the same amount.

As already mentioned, recent restrictions have tended to relate to specific sectors and specific countries. At the outset, this approach involves the imposition of restrictions on particular products considered "sensitive." The restrictions are often extended to other products that are initially considered "nonsensitive" but in which developing countries acquire the ability to penetrate the markets of industrial countries. Restrictive commercial policies, while possibly inducing an initial shift in developing countries' exports to nonrestricted lines of production, discourage investment in export-oriented activities in the longer run. In this way, the policy bias against exports may increase and developing countries may be encouraged to adopt (sometimes excessive) import substitution policies.

Table 6. Non-Oil Exporting Developing Countries: Composition of Exports, 1973–79
(In per cent)

Products	1973	1975	1976	1977	1978	1979[1]
Primary products	64.8	67.2	63.6	62.1	58.0	59.1
Food	*32.3*	*31.6*	*29.8*	*31.0*	*28.1*	...
Raw materials	*11.3*	*7.7*	*7.7*	*7.4*	*7.1*	...
Other	*21.2*	*28.4*	*26.1*	*23.7*	*26.5*	...
Manufactured products	33.9	31.6	35.4	35.1	40.0	39.7
Semimanufactures	*9.0*	*8.0*	*8.2*	*8.3*	*9.6*	...
Engineering products	*8.7*	*9.5*	*10.5*	*11.1*	*12.9*	...
Textiles	*5.9*	*4.5*	*5.0*	*4.4*	*4.8*	...
Clothing	*5.6*	*5.4*	*6.7*	*6.2*	*6.8*	...
Other consumer goods	*4.7*	*4.2*	*5.1*	*5.2*	*5.9*	...
Other	1.3	1.2	0.9	2.8	2.0	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: GATT, *International Trade, 1977/78*, and *International Trade, 1979/80*.
[1] Provisional.

The following paragraphs summarize information supplied by three developing countries (Korea, Paki-

stan, and the Philippines) on measures restricting their exports (Appendix V, Tables 34–36).

Exports of Korea have since 1974 become subject to an increasing number of protectionist measures in major foreign markets. At present trade barriers are applied by 15 industrial countries and the European Community, affecting not only traditional exports, such as marine products, textiles, footwear, and other leather goods, but also new exports, such as steel and steel products, some rubber products, and consumer electronics. The measures used to restrict imports from Korea comprise quotas, voluntary export restraint agreements, special import licensing limitations, and administrative guidance. New trade barriers introduced in 1979–80 included voluntary export restraint agreements with Ireland on footwear and with the United Kingdom on footwear and cutlery, and the introduction of a bilateral quota on exports of ski boots to Norway. Exports of color television sets to the United States have been subject to a voluntary export restraint agreement since 1979. The United States also imposed new or raised existing duties on imports of tires and tubes for bicycles, industrial fasteners, rubber footwear, and porcelain-on-steel cookware from Korea during the period under review. In early 1980, the United States phased out the quota on specialty steel products; some specialty steel products were, however, placed under administrative surveillance ("surge" mechanism) in January 1981. The share of Korea's total exports to the 15 countries that impose trade barriers declined from 94 per cent in 1974 to 73 per cent in 1979. This share could have fallen even more if Korea had not diversified its categories of exports.

No major changes appear to have taken place recently in restrictions on imports from Pakistan in the industrial countries. The share in Pakistan's exports of the eight developed countries (including the European Community) that maintain restrictions affecting Pakistan rose from 36 per cent in 1974 to 45 per cent in 1979. However, there are indications that Pakistan's export diversification effort could be increasingly hampered by the present restrictions on manufactured products maintained in Pakistan's principal foreign markets, such as import duties, quotas, discriminatory import licensing, and embargoes. During 1980, Australia subjected certain cotton and leather bags, handbags, and footwear from Pakistan to import duties, whereas previously some of these products had been subject to quotas. Import levies were also imposed by Australia on cotton yarn, and licensing was extended to footwear imports. Norway excluded Pakistan's exports of cotton yarn, fabrics, and cotton clothing from its Generalized System of Preferences (GSP) scheme for 1980. During 1980 restrictions arising out of health and sanitary regulations were removed by the United States on imports from Pakistan of dried fruits, by Japan on shrimps, prawns, and lobsters, and by Australia on imports of almonds. Japan also eliminated quantitative limitations on imports of certain fish products from Pakistan.

Ten developed countries and the European Community currently maintain trade barriers against imports from the Philippines. These barriers take the form of quantitative restrictions, outright import prohibitions, selective internal taxes, discretionary import licensing, minimum price undertakings, and bilateral agreements incorporating export restraints. During 1979–80, new quantitative restrictions were imposed by Austria, Australia, Finland, and Sweden on imports of sugar and its preparations from the Philippines; these restrictions replaced quotas agreed under the International Sugar Agreement. Australia imposed quantitative restrictions on imports of footwear. Canada, the European Community, and Switzerland imposed quotas on imports of clothing and other wearing apparel under the MFA. Quantitative restrictions and tariff duties were also imposed on certain processed agricultural products by the Community, Finland, Japan, Norway, Sweden, and Switzerland. During the same period, the Community, Norway, and the United States removed quota restrictions on certain textiles and clothing items. The United States also phased out quantitative restrictions and licensing requirements on imports of tuna fish and fermented alcoholic beverages, and Australia eliminated quantitative barriers on imports of certain wood products. The share of the Philippines' total exports to the countries maintaining restrictions declined from 92 per cent in 1974 to 81 per cent in 1979.

The MTN and Developing Countries

Apart from the restrictions reviewed in Section III and their own domestic policies, developing countries' export prospects and participation in the multilateral trading system will also be influenced by the special provisions for developing countries in all MTN codes and understandings. A major development has been the agreement on an "enabling clause," which provides a permanent legal basis within the GATT for preferential trade treatment in favor of, and between, developing countries and for special treatment of the trade of the least developed countries. Another agreement recognizes the developing countries' right to take safeguard action not only when establishing a new industry but also to modify existing production structures in accordance with development priorities; it is thus seen as providing a basis on which their competitiveness could be strengthened in the long run.

Other agreements and codes emerging from the Tokyo Round on various nontariff matters also provide for special treatment to developing countries (Appendix V, Table 37). The Code on Subsidies and Countervailing Duties recognizes that subsidies may be an important part of development programs and therefore does not contain an outright prohibition on the use of export subsidies by developing countries to promote exports of nonprimary products. The revised Antidumping Code recognizes that special economic conditions in developing countries may not provide a realistic domestic price for comparison purposes, and allows the use of the price of the like product in a third country or the cost of production in the country of origin as a basis for the determination of dumping. The Code on Customs Valuation allows developing countries to delay its implementation for five years.

Tariff Reductions

Under the principle of most-favored-nation treatment, tariff cuts agreed among industrial countries on industrial products automatically apply to imports from all countries. Preliminary estimates show that tariff reductions on products of interest to developing countries are expected to be somewhat smaller than for all products.[56] Nonetheless, these would, barring other forms of restrictions, result in increased manufactured exports from developing countries.

The MTN tariff cuts will lead to an erosion of preferences for products that are subject to lower tariffs under the GSP schemes. Most studies undertaken to determine the overall trade effects of tariff reductions, including erosion of GSP benefits, conclude that the new exports generated by MTN tariff cuts would be several times higher than the loss of exports due to reduction in preferences (Appendix V, Table 38).[57] The MTN tariff cuts apply to a wider range of industrial products, while GSP preferences apply only to eligible items. An important advantage of most-favored-nation tariff cuts is that they are "bound" against future increases; in contrast, preferences under GSP schemes are uncertain and donors may reduce the scope of the schemes by eliminating commodities or lowering tariff quotas.

On January 1, 1981, the European Community introduced a new ten-year GSP scheme, six months ahead of the expiration of the old scheme. While not altering the basic definition of beneficiary countries, it applies preferences on a "differential" basis—that is, through ceilings for individual suppliers rather than under global quotas. This is aimed at ensuring relatively greater access for the less developed of the developing countries. Differential application of preferences will be implemented by allocating only a small proportion of the total Community import quota for a product to the major suppliers, which are assumed to have already become competitive in that product, and leaving the rest for the other beneficiaries. Under the new scheme, country amounts ("butoirs") will be lower the more developed a beneficiary country is; criteria for determining the stage of development include per capita gross national product and the share in Community imports of particular products. Country ceilings (maximum allocations) will be designed in such a way as to protect the Community's producers in product lines where certain beneficiary countries have penetrated the market significantly.

The new Community scheme extends preferential treatment to a few new industrial and agricultural products. Preferred commodities have been classified into sensitive and nonsensitive groups. The sensitive group includes 6 agricultural and 120 industrial products. In this category, quotas are specified for each product, and ceilings for each major supplier, leaving the remainder for other suppliers. Of the sensitive industrial products, 64 are subject to strict tariff quotas, while for others quotas can be exceeded without reimposition of the full tariff if there is no injury to domestic production. For 1981, taking into account the accession of Greece, the GSP scheme limits preferences on imports of products subject to quotas and ceilings to no more than 2 per cent above their level of 1980. Products not under quotas or ceilings are subject to surveillance for statistical purposes.

The Japanese GSP scheme was modified on April 1, 1980 to incorporate the People's Republic of China in the list of beneficiaries. Reflecting understandings reached in the Tokyo Round, the least developed countries are to be accorded duty-free treatment for most products covered by the GSP scheme; these countries will also be exempted from most ceiling limitations. New Zealand revised its GSP scheme effective January 1, 1980 in order to incorporate changes agreed in the Tokyo Round. During 1978–79, 74 per cent of imports covered by the GSP scheme were duty free from all sources, 24 per cent were accorded preferences, while the remaining 2 per cent were excluded from the scheme. Most industrial countries extended beneficiary status to Zimbabwe during 1980.

The U.S. GSP scheme covers about 2,800 product classifications out of approximately 7,000 in the U.S.

[56] GATT, *The Tokyo Round of Multilateral Trade Negotiations* (April 1979), p. 121.

[57] A study conducted for UNCTAD, however, estimates a net loss of over $1 billion to the current beneficiaries of GSP schemes resulting from generalized tariff cuts (Ginman, Pugel, and Walter, 1980, pp. 83–95).

tariff schedule.[58] In 1980, U.S. duty-free imports under the GSP reached $7.3 billion. Although no major changes have been made in the U.S. scheme since 1979, in early 1981 it was decided to tighten the application of existing provisions by excluding Brazil, Hong Kong, Korea, Mexico, and Taiwan from eligibility for preferential treatment in respect of specified products (valued at $0.5 billion), on the grounds that these countries were already competitive in those products without having triggered the criterion of competitive need.

Newly Industrializing Developing Countries

Trade policies of industrial countries increasingly appear to be emphasizing a distinction between newly industrializing developing countries, which have acquired a certain level of competitiveness in international trade, and other developing countries. This distinction may be based on a perception that the recent successes in the export effort of newly industrializing countries such as Brazil, Hong Kong, Korea, Singapore, and Taiwan (which account for some 70 per cent of manufactured exports of developing countries), not only in traditional products but also increasingly in technology-intensive products, is partly attributable to preferential treatment extended by the industrial countries in the past.[59] The "enabling clause" agreed in the MTN states that, with the progressive development of their economies and improvement in their trade situation, developing countries would be expected to participate more fully in the framework of rights and obligations under the GATT.

It remains to be seen how this provision is applied in practice. Some developing countries have shown awareness of these concerns and, with a view to improving domestic resource allocation, have started to reduce restrictions on imports and subsidization of exports. For example, Brazil, Chile, and Korea are among the countries that undertook commitments under the Code on Subsidies and Countervailing Duties to phase out their export subsidies. In recent years, several developing countries have initiated programs to liberalize quantitative restrictions on imports—for example, between April 1978 and January 1, 1980, Korea raised the share of imports on the automatic approval list from 54 per cent to 68 per cent. Even so, in some sectors (such as textiles and clothing), the industrial countries have restricted access to their markets more severely for the "successful" exporters than for others. In other sectors, such as consumer electronics, bilateral restraint agreements are often specifically designed to limit import penetration from one or two developing countries. The possibility of permitting selective application of Article XIX safeguards has been vigorously opposed by developing countries, in particular the newly industrializing developing countries.

The continuing protectionist pressures, combined with the current emphasis on policies applying to specific sectors and countries in the sensitive sectors in the industrial countries, pose a danger that more restrictive policies will be applied to the newly industrializing countries. Such a development would not only be detrimental to the interests of the affected countries —and developing countries generally—but would also be inconsistent with a more efficient worldwide allocation of resources. Implementation of selective policies in this sense would discourage newly industrializing countries from fully utilizing or expanding their capacity to produce technology-intensive goods. Moreover, such restrictions would penalize countries that have emphasized export-oriented policies, possess the needed commercial and industrial experience and skilled labor, and have come to be considered by importers in developed countries as secure sources for industrial location and supply. If these countries were therefore forced to rely more heavily on exports of relatively labor-intensive manufactures, this would jeopardize the export prospects of other developing countries and could encourage them to pursue excessive import substitution policies. At the same time, the application of restrictive trade policies to new developing country suppliers could itself slow the progress of technological change in the industrial countries and thus delay a shift of production to sectors in which they would otherwise have a comparative advantage. The pace and manner of integration of the newly industrializing developing countries in the multilateral trading system is therefore of crucial importance for all developing countries.

[58] U.S. House of Representatives, Committee on Ways and Means, *Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP),* April 21, 1980.

[59] While the exact definition of "newly industrializing countries" varies, the five countries mentioned above are included in most such groupings. Other countries included in the Fund's definition of "major exporters of manufactures" are Argentina, China, Greece, India, Israel, Portugal, South Africa, and Yugoslavia. A recent World Bank staff study excludes China, India, Portugal, and South Africa but includes Chile, Mexico, and Uruguay (Balassa, October 1980).