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Latin American and Caribbean Countries in the World Trade System: past problems and future prospects*

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1. Introduction

This paper addresses the main trade policy issues facing Latin American countries in the eighties. It is divided into two parts. Part I is intended to provide background information on the evolution of the trade regime facing Latin American and Caribbean countries prior to the present debt crisis. Part II shall address the trade policy problems, which are likely to arise to Latin American from the unfolding of the current unstable world economic position and, as far as it may be, point to some possible negotiating strategies in coming multi and bilateral trade talks with a view to further the growth of the region's exports.

For those not acquainted with the basic trends in the growth, structure and direction of the region's trade, a relatively lengthy analysis of such trends is presented in Appendix A.

The reader should be aware that some of the more general arguments put forward in this study need to be qualified in terms of their relevance for specific Latin American countries as these are very heterogeneous in terms of natural resource and factor endowments, levels of development and trade structures. The impact of different trade barriers erected by industrial countries is likely, in consequence, to be of rather unequal importance for different member countries.

PART 1

The evolution of the world trade regime and its effect on Latin American and Caribbean Countries

2. From World War II to the first oil shock

This section deals with the evolution of the world trade regime from the point of view of Latin American countries up to 1973. It discusses the conflicting trends towards greater tariff liberalization in trade in manufactures and growing non-tariff barriers to agricultural trade in industrial countries. It also describes the appearance of the first non-tariff restrictions against manufacturing imports, which would later become generalized, as the first oil shock provided increased room for the aggravation of protectionist policies in OECD countries.

The section is divided into three subsections. The first two subsections deal respectively with tariffs and non- tariff barriers with special emphasis on their impact on the exports of developing countries in general and specifically on Latin America's exports when it is relevant to do so. The third subsection examines the evolution of GATT rules from the point of view of developing countries, in particular how discriminatory treatment carne to significantly affect the export interests of these countries.

2.1. Tariffs

The substantial reduction of average nominal tariff rates in the main industrial nations in successive "rounds" of Multilateral Trade Negotiations (MTNs) sponsored by the GATT since indeed impressive – for a sample of eight large OECD countries average tariff rates fell from above 50% in 1950 to around 9% by the early seventies[1]. However, the timing and, especially, the extent of the impact of this fall in average tariff levels on the actual level of protection facing products of export interest to Latin America must be qualified in a number of ways.

Although the first three MTN rounds (Geneva (1947), Annecy (1949) and Torquay (1951)) witnessed substantial reductions in no less than 58,000 tariff items, their actual results were not impressive. Large nominal cuts were then achieved because U.S. anxiety to remove tariff barriers following the return to peace found little resistance from European governments as their markets were still protected by a battery of quotas and other restrictions erected for balance of payments reasons. Given the item-by-item approach then used in MTNs, agreement was easily found on items in which tariff redundancy neutralized the effects of the cuts on actual levels of protection.

From the early 1950s, however, pressure from the Bretton Woods institutions led to a gradual abolition of direct trade and exchange Controls with important consequences for future GATT negotiations. On the one hand, the erosion of tariff redundancy with the removal of the Controls

[1] These include the United States, Japan, West Germany, the United Kingdom, France, Sweden, The Netherlands and Belgium. See United Nations Economic C**o**mmission for Latin America (1979), p. 121.

increased the political costs faced by European governments in granting tariff concessions.

This would lead to the prospective introduction of non-tariff barriers as discussed in the following section of this chapter. On the other hand, the dismantling of Controls disclosed the wide disparity of tariff structures among European countries. The correction of these disparities was to be the main task of the movement towards European commercial integration, which led to the creation of the European Economic Community (1957) and the European Free Trade Association (1959) and, for a great part of the 1950s and early 1960s tariff negotiations became a European, not a multilateral affair. This explains the relatively poor results of the two MTN rounds held after Torquay, those of Geneva (1956) and the so-called Dillon Round (1960-61).

In the period prior to the first oil shock, by far the most significant tariff cuts were obtained in the Kennedy Round, negotiated between 1964 and 1967. Although falling short of the bold American attempt for a 50% across-the-board cut, tariff reductions averaged almost 39% – two-thirds of which in excess of 50% – affecting products accounting for 75% of the value of world trade[2].

The reduction in industrial country tariff rates resulting from the successive MTN rounds was not, however, evenly distributed across product groups. In the early rounds, the "item-by-item" approach tended to concentrate the negotiations on products in relation to which equivalent reciprocal concessions could be offered, thus practically excluding developing countries from the bargaining process. Even with the "across-the-board" technique adopted in the Kennedy round, the cuts still concentrated away from products of interest to developing countries, and even within manufactures the larger concessions were given more on finished than on semi-processed goods[3]. As noted by the UNCTAD Secretariat, the average tariff cuts for products of special interest to developing countries in the Kennedy round was only about 20% as opposed to 35 to 40% for those of the industrial countries[4].

Moreover, the use of tariff averages as a measure of tariff protection gives a distorted picture of the situation facing Latin America even after the Kennedy Round because it obfuscates the spread of tariff rates still remaining among both products and industrial countries. Data presented in Table 2.1 illustrate this point.

Beverages and Tobacco, Clothing and Textiles, items of great interest to developing countries faced the higher average tariffs of all product groups for the three markets shown in the table taken together[5]. Also, in spite of the substantial degree of tariff harmonization achieved among OECD countries since the early 1950s, for some individual countries tariff barriers against products of

[2] For a detailed analysis of the results of the Kennedy Pound, see Preeg (1970).
[3] Finger (1976), p. 94.
[4] UNCTAD (1963), p. 94.
[5] For some products such as tropical beverages (coffee, tea and cocoa) and tobacco, not only tariffs were usually high for fiscal reasons as additional excise duties were frequently applied. See GATT (1958) paragraphs 283 to 304.

particular interest to Latin America remained relatively high. At the aggregation level presented in Table 2.1 it can be seen that such was the case, for instance, with Beverages and Tobacco in Japan, Clothing and Textile Fibres in the U.S., and Food and Foodstuffs in the EEC and Japan.

In assessing the height of tariff barriers, effective rates of protection (ERP) should also be considered[6]. Table 2.2 shows post-Kennedy round nominal rates together with ERP estimates for the chief of OECD markets derived for over 100 processed products exported by developing countries.

Table 2.1

Post-Kennedy round tariff averages in the KBC, the United States and Japan for products of export interest to developing countries* (in percentages)

Description	EEC	USA	Japan
Food and foodstuffs	15.1	6.9	22.0
Coffee, tea, cocoa and spices	11.9	1.6	15.0
Foodstuffs excluding 07	17.2	10.4	26.6
Beverages and tobacco	49.9	30.8	222.1
Crude materiais	0.8	3.6	1.6
Textile fibres	0.2	8.2	0.0
Ores and scrap	0.0	1.6	0.0
2, excluding 26 and 28	1.4	2.2	3.1
Mineral fuels	1.9	3.9	13.0
Petroleum	1.9	3.9	12.9
Gas	1.5	0.0	20.0
Oils and fats	13.8	17.1	14.7
Chemicals	6.6	6.1	12.4
Manufactures	8.0	8.3	10.1
Textiles	14.9	18.7	12.7
Iron and steel	6.5	3.9	7.8
Non-ferrous metals	2.7	4.1	8.7
6, excluding 65, 67 and 68	7.7	6.0	10.1
Machinery	7.5	6.1	8.4
Non-electrical machinery	7.1	4.8	8.3
Electrical machinery	9.1	8.5	8.6
Transportation equipment	4.0	3.1	7.5
Miscelaneous manufactures	11.7	20.8	14.6
Clothing	15.2	30.0	17.8
8, excluding 84	9.0	14.0	12.2
Industrial manufactures	8.5	10.1	10.9
Total	7.7	7.9	17.1

Based on a sample of approximately 300 individual tariff line items.
Source: Yeats (1979), Table 4.3, p. 76, adapted from UNCTAD (1968).

[6] Effective rates of protection measure the effect of protection on value added per unit of output in the importing country. It allows for the fact that nominal tariff rates are poor indicators of the impact of protection on incomes in industries relying heavily on dutiable imports. For a through discussion of the concept, see Corden (1971).

Table 2.2

Estimated nominal and effective post-Kennedy round rates of protection in the EEC, the United States and Japan (in percentage)

Commodity Group	EEC		USA		Japan	
	Nominal	Effective	Nominal	Effective	Nominal	Effective
Food and feeds						
Meat and meat products	19.5	36.6	5.9	10.3	17.9	69.1
Preserved seafoods	21.5	52.6	6.0	15.6	13.6	34.7
Preserved fruits and processed food	20.5	17.7	14.8	36.8	18.5	49.3
Manufactured and processed food*	14.6	24.9	5.0	1.0	24.0	59.3
Cocoa products and chocolate	12.8	34.6	4.2	16.2	22.8	80.7
Yarns, fabrics and clothing						
Yarns and threads	6.2	19.4	19.5	37.1	9.9	24.2
Fabrics and clothing	14.3	29.1	27.3	40.4	13.0	22.0
Jute sacks, bags and woven fabrics	18.2	42.9	1.4	3.2	27.1	65.0
Vegetable and animal oils						
Plant and vegetable oils**	11.1	138.0	9.4	17.7	10.1	64.9
Cottonseed oil	11.0	79.0	59.6	465.9	25.8	200.3
Soybean oil	11.0	148.1	22.5	252.9	25.4	286.3
Leather and leather products	7.8	14.6	7.0	12.8	14.8	22.6
Cigars and cigarettes	87.1	147.3	69.0	113.2	339.5	405.6
Soaps and detergents	7.5	14.4	7.9	19.3	16.6	44.4
Median tariff rates***	12.2	33.1	8.6	18.0	16.5	45.4

Notes:
* Includes roasted coffee.
** Consists of both crude and refined coconut oil, groundnut oil and palm kernel oil.
*** Median rate for 123 individual products or product groupings.

Source: Yeats (1974), p. 45.

Inspection of the data shows that, in general, low nominal tariffs can conceal extremely high rates of effective protection and those ERPs of over 50% were not uncommon.

The evidence presented in the preceding paragraph tends to support the view that post-Kennedy round tariff structures in developed countries did provide a strong disincentive to the establishment of processing industries in developing countries. This was a direct consequence of the fact that industrial country tariff structures have traditionally displayed much lower tariffs in primary commodities and raw materials than on finished goods. However, despite the increasing awareness of the implications of "tariff escalation" against processed products by the time of the Kennedy round, little was done during the negotiations to abolish this distortion, as can be seen by glancing at the tariff incidence in the leading OECD markets on a sample of primary and processed goods exported by developing countries shown in Table 2.3 below.

This table also provides evidence on the escalation of effective tariff levels over the processing chain in industrial countries[7]. It can be seen that ERPs expectedly increase as one moves towards the second stage of processing and, as already shown, are usually much higher than nominal rates. Moreover, although no clear-cut evidence of a general pattern of ERP escalation emerges, there is strong presumption that in case where effective tariff rates decline, some form of non-tariff protection might have been active[8]

[7] Note that even though nominal protection escalates with the stage of fabrication, ERPs will only follow that pattern if average nominal tariff on inputs increase less fast than those on finished products.
[8] Yeats (1979), p. 95.

Table 2.3

Structure of post-Kennedy round nominal and effective tariffs in the EEC, the USA and Japan on primary and processed goods exported by developing countries

Commodity and stage of processing	EEC		USA		Japan	
	Nominal	Effective	Nominal	Effective	Nominal	Effective
Meat products						
1. Fresh and frozen meat	17.8	17.8	4.6	4.6	6.2	6.2
2. Meat preparation	19.5	36.6	5.9	10.3	17.9	69.1
Fishand seafood						
1. Fresh and frozen fish	14.9	14.9	1.3	1.3	5.3	5.2
2. Fish preparation	21.5	52.6	6.0	15.6	13.6	34.7
Fruit						
1. Fresh fruits or nuts	13.9	13.9	5.6	5.6	14.0	14.0
2. Preserved fruit	20.5	44.9	14.8	36.8	18.5	49.3
Cocoa						
1. Cocoa beans	3.2	3.2	0.0	0.0	3.0	3.0
2. Cocoa powder	18.2	126.6	1.6	11.6	12.2	98.3
3. Chocolate	18.0	19.3	4.8	1.3	35.0	68.6
Leather and products						
1. Hides and steins	0.0	0.0	1.1	1.1	0.0	0.0
2. Leather	4.8	12.3	4.7	12.0	1.7	34.7
3. Leather goods*	9.6	14.8	11.3	18.8	17.4	25.7
Rubber and products						
1. Natural rubber	0.0	0.0	0.0	0.0	0.0	0.0
2. Rubber products	7.9	16.3	4.6	6.6	6.4	10.3
Wool and products						
1. Raw wool	0.0	0.0	9.7	9.7	0.0	0.0
2. Wool yarn	5.7	17.5	20.7	49.5	5.0	14.7
3. Wool fabrics	16.0	38.1	20.7	60.9	10.0	21.3
Cotton and products						
1. Raw cotton	0.0	0.0	6.2	6.2	0.0	0.0
2. Cotton yarn	10.0	32.9	10.5	25.0	2.8	6.8
3. Cotton fabrics	12.0	19.1	13.8	24.6	7.9	17.8
4. Clothing	14.7	20.0	18.3	18.9	15.0	27.1
Jute and products						
1. Raw jute	0.0	0.0	0.0	0.0	0.0	0.0
2. Jute fabrics	19.6	53.3	0.0	-0.6	20.0	54 .4
3. Sacks and bags	15.5	14.0	3.6	10.7	12.5	2.7
Iron and products						
1. Iron ore	0.0	0.0	0.0	0.0	0.0	0.0
2. Pig iron	4.0	3.5	0.7	0.0	1.9	2.9
3. Steel inputs	4.0	1.1	6.3	62.2	6.4	16.6
4. Mill products	5.5	11.5	3.5	-4.8	8.9	20.5
5. Special steels	7.5	19.5	4.0	6.3	7.8	8.6
All items**						
Stage 1	2.9	2.9	3.9	3.9	2.7	2.7
Stage 2	10.7	38.8	7.3	14.7	10.4	30.8
Stage 3	9.9	15.7	7.6	20.6	13.9	27.3
Stage 4	10.1	20.1	7.9	8.0	11.3	21.3

Notes: * Including shoes.

** Averages shown here include, besides the commodity groups presented in the table, estimate for Vegetables, Groundnut Oil, Coconut Oil, Wood and Products, Paper and Products, Sisal and Products, Copper and Products, Aluminium, Lead and products and Zinc and Products.

Source: Adapted from Yeats (1979), Tables 4.4 and 4.7, pp. 80-83 and 96-99.

2.2. Non-tariff barriers

The rise of non-tariff barriers to trade has been somewhat improperly associated to the rise of the so-called new protectionism in the 1970s. In fact, the roots of such a trend are to be found quite clearly in the GATT charter itself in the case of agricultural products – a direct heritage of restrictive national policies in the 1930s – and from the mid-1950s in the introduction of the first "voluntary restraint" schemes affecting the exports of manufactured goods by Japan and developing countries in Asia[9].

Given the much more ingrained protectionist leanings in the policies of developed countries concerning primary – especially agricultural – imports and its longer history it is convenient when examining non-tariff barriers to deal separately with primary and manufactured goods.

2.2.1. Primary products

The special status of agricultural products was fully reflected by the GATT as the imposition of quantitative restrictions was allowed if national governments were restricting production or sales of similar products. This reflected particularly the contradiction between US commitment to a liberal trade policy and its domestic agricultural price support programmes. European countries, on the other hand, also had a tradition of quantitative restrictions of imports during the 1930s. Even the UK adopted policies to increase domestic production during World War II, which were maintained after 1945 due to balance of payments difficulties[10].

US policy indeed went beyond as even products whose supply was not domestically regulated were subjected to increased quantitative regulations or even embargoes. As put by an analyst "the US, far from exercising a leadership role in favour of liberalization, found itself having to defend its disruptive action in agricultural import restrictions, disposal of surplus stocks and use of export subsidies"[11]. In this context, it is hardly surprising that, as a development of the Treaty of Rome, a Common Agricultural Policy (CAP) emerged which was heavily protectionist especially for those products in which the EEC had larger comparative disadvantages.

Until the Kennedy Round, concern over the advance of protectionism in agriculture led to no more than the study of the problem due basically to US resistance. The Haberler Report underlined the seriousness of the consequences of protectionist policies – including non-tariff barriers, which

[9] It would be impossible to try to discuss exhaustively all non-tariff barriers in the context of this Report. The reader is referred to Baldwin (1970) for a comprehensive discussion of these and to Appendix B for an attempt to list the most important.
[10] On this see Curzon and Curzon (1976), p. 151 and Warley (1976), *passim*.
[11] Warley (1976), p. 300.

reduce the level of import such as quotas, dumping of agricultural products in foreign markets and the protection of domestic producers through levies on imports – on the exports of developing countries. It was argued that even minor changes in these policies would have a significant impact on the exports of developing countries, especially so in the case of producers of temperate foodstuffs, as their share of imports in total supply both in the US and in Europe was not very large[12].

By the early 1960s, CAP was firmly established relying mainly on import levies which provided absolute protection for inefficient EEC producers. The paramount consideration of EEC policy was and has been the level of real income of farmers in the Community in spite of considerable lip service concerning the protection of interests of previous exporters. The US of course tried to revert protectionist trends in EEC in the Kennedy round but was utterly defeated by the Europeans[13].

In the early 1960s, agricultural prices in developed countries were already substantially above world market prices: 39% in Germany, 25% in Italy, 29% in the UK, 17% in France and 16% in the US[14]. By the late sixties and early 1970s self-sufficiency in temperate products had increased to more than 90% – as compared to 87% in the mid-1950s – under the umbrella of very substantial levies equivalent to double the world prices in the case of many products and for dairy products more than five times such prices (see Table 2.4)[15].

The early 1970s corresponded to a relative decrease of such price differentials. The bulk of nominal protection for agricultural products in the EEC in the early 1970s corresponded to levies rather than tariffs[16]. This System turned exporters of agricultural products into residual suppliers of the EEC – in the sense that their exports were determined as the difference between consumption and domestic production at enormously inflated prices. Moreover, the EEC agricultural policy would tend in due course to disrupt world markets for those products whose output could not be absorbed by the Community by resorting to export subsidies to the detriment of alternative suppliers. The EEC by the late 1970s would avoid instability by exporting it to the rest of the world, including developing countries, and more especially those not enjoying trade preferences. US policy, on the other hand, was rather more hesitant. Indeed, enthusiasm for trade liberalization of world agricultural markets, which would benefit the exports of products in which the US had a clear comparative advantage – wheat, feed grains, oilseeds and meals, poultry, tobacco – was importantly qualified by the firm commitment to protect the domestic inefficient producers of sugar, cotton, rice, dairy products and

[12] GATT (1958), pp. 90, 91, 98 and 106.
[13] Warley (1976), p. 387 speaks of the US being defeated in a ground of its own choosing and quotes Preeg (1970): "this is the first major negotiation of a common interest across the Atlantic in which neither side was more equal than the other". These percentages correspond to the excess value output measured at price receive by farmers over value of output at import price in 1961-62.
[14] Johnson (1964) quoted by Johnson (1967), p. 86.
[15] For increased self-sufficiency in selected products and the evolution of net import volumes in several EEC countries see Wells (n. d.), tables 4.6 and 4.7.
[16] See Yeats and Sampson (1977), p. 102.

beef. The US policy of surplus disposal of agricultural products through artificially low prices in the world markets especially of wheat has contributed importantly for the disruption of the world market for such commodities.

Table 2.4

ESC: ratio of EEC prices to world market prices

	1968-69	1970-71	1972-73
Soft wheat	195	189	153
Rice	138	210	115
Barley	197	146	137
Maize	178	141	143
White sugar	355	203	127
Beef	169	140	112
Pig meat	134	134	147
Butter	504	481	249
Skimmed milk powder	365	218	145
Total*	(229)	(195)	(149)

Source: Davenport (1982).

* Weighted average of included products. It should be noted that these ratios are distorted by the fact that world prices are influenced by EEC prices.

Japanese policy on agricultural imports has been not substantially different from policies adopted by other developed countries. However, as Japan's agriculture was by many reasons unable to increase production at a pace similar to the rapidly increasing demand for food, self-sufficiency ratios decrease rapidly in the 1960s: from 90% in 1960-61, to 81% in 1965-66 and 72% in 1971-72[17]. However, protection measured as the extent by which domestic prices exceed import prices has increased dramatically since the mid-1950s to the late 1970s: this raised from 46 to 256% for an aggregate of grains, soya beans and sugar and from 113 to 284% for beef[18].

The impact of protectionism on the exports of primary products by developing countries was not restricted to agricultural products until the mid-1960s as quotas were imposed by the US on imports of lead and zinc as well as on crude oil[19].

Non-tariff barriers applied on primary goods until the early 1970s affected rather importantly Latin American and Caribbean economies especially those specialized in the export of temperate-zone foodstuffs such as wheat and beef as it was materially possible, by paying extremely high prices, to foster domestic production in the EEC. However, not only temperate foodstuffs were affected:

[17] OECD (1973) quoted by Warley (1976), p. 317.
[18] Saxon and Anderson (1982) in Commonwealth Secretariat (1982), p. 39.
[19] Johnson (1967), p. 89.

sugar and oils and fats imports were also reduced as the payment of import levies stimulated inefficient domestic production. It is of course true that, in spite of protectionist policies, agricultural exports of developing countries to the EEC increased in the 1960s but much less than intra-EEC trade in agricultural products or even than US agricultural exports to the EEC. However, it is unacceptable to argue like Warley (1976) that this is an indication that the external effects of CAP are somehow more acceptable or less disastrous. What is relevant is that the relative position of developing countries in general and of Latin America in particular has started to deteriorate as suppliers of agricultural products to the EEC: the share of Latin America in the EEC foodstuff market fell from 12.4% to 11.2% between 1965 and 1973[20]; that of ALADI from 9.5% to 9.0%. In the case of agricultural raw materials Latin America's, share feel from 6.2% to 4.1% in the same period.

A special group of products in between primary and manufactured goods is formed by processed primary products, which were subjected also to other non-tariff barriers besides quotas, variable levies and subsidies. These other non-tariff barriers are wide ranging and can include domestically biased procurement policies, import licensing, standards, packaging and health regulations. The trade losses entailed by these barriers are very difficult to gauge but may be severe. There is little doubt that many of these barriers had as primary motive to block access of imports to specific markets[21].

It is abundantly clear that protectionism in the realm of primary and more especially of agricultural products was rather well established in the 1950s and was further aggravated in the 1960s. Indeed, the developed countries' policies consistently favoured the support of inefficient domestic production in substitution of imports from those countries, which had a very marked competitive advantage in the production of agricultural products and would continue to have such advantage in the future.

As will be seen below the oil shocks in the 1970s would justify an escalation of agricultural protectionism but the basic trends had already been clearly established before 1973.

2.2.2. Manufactured goods

It can be said without much fear of exaggeration that non-tariff protectionism in the realm of manufactured goods was basically initiated by the reaction of the US against Japanese textile exports in 1957 and was indeed well established before the early 1970s when "new protectionism" was detected as the dominant trend in the commercial policy of developed economies.

[20] No comparable data available for 1960.

[21] Baldwin (1970) provides an exhaustive listing of such trade impediments. These non-tariff have of course a very long history in world trade. O'Connell (1982), for instance, analyses contrasting US and British policies on foot and mouth disease in the 1920s in spite of equal access to scientific evidence.

Complaints by US cotton textile producers started in 1954 and gathered strength as Japanese exports increased very rapidly in the mid-1950s. Secretary Dulles eventually advised the Japanese government to "exercise restraint" in the export of cotton textiles to the US and in due course the Japanese government agreed to impose "voluntary" export restraints on textile products thus effectively blocking the growth of Japanese penetration of the US market without breaching GATT rules. By 1959 the UK had also managed to extract voluntary restraint commitments especially on cotton textiles from Japan as well as Hong Kong, India and Pakistan[22]. When the US failed to persuade Hong Kong to curb textile exports, it successfully tried to "multilateralize" and legalize the existing agreements for cotton textiles within the GATT bringing Europe into sharing the burden of adjustment to Japanese textiles penetration. From the existing haphazard bilateral network of "voluntary" restraints then emerged first a Short Term Arrangement one year later by a Long Term Arrangement (LTA). The latter, renewed in 1967 and 1970, allowed for the negotiation of bilateral agreements restricting trade, the imposition of quotas by importing countries if exporting countries were not willing to limit their exports. Quotas should grow by at least 5% a year and some "supervision" procedures were introduced. As technical progress stimulated the substitution of cotton by man-made fibers the LTA was replaced in 1974 by a Multifiber Arrangement regulating a much ampler spectre of textile goods[23]. While textile exports corresponded to practically 100% of developing countries' exports of manufactured goods at the time, they represented a rather limited share of total supply in most developed countries: around 15% in the UK, less than 4% in the US in the early 1960s, still less important shares in the economies of the EEC[24]. These protectionist measures in the US and UK affecting Japan and developing countries were, therefore, particularly serious as these two countries still absorbed about 80% of total exports of textile products by developing countries to the US and Western Europe.

Just as the consolidation of protectionism in the textile sector was the answer of the US and the European countries to the "menace" of Japanese and South East Asian exports in the 1950s, something similar if less institutionalized started to happen in the 1960s in the connection with other – especially Japanese – manufactured exports which were or would become of importance for developing countries. By the end of the 1960s a host of import restrictions were being applied in Europe and the US against Japanese products and by Japan against other countries (though these last were rapidly removed). Based on the precedents raised by the reaction to Japanese exports voluntary export restraints were to become fashionable[25], and these import restraints were substituted in the

[22] Curzon and Curzon (1976), pp. 257-9, Miles (1964), pp. 120-2 and Patterson (1966), p. 308.
[23] Baldwin (1970), p. 41 and Greenaway (1983), p. 176.
[24] Total manufactured goods imports corresponded in 1960 to 0.9% of GDP in the UK, 0.7% in EFTA countries, 0.5% in the EEC and 0.1% in the US. Miles (1964), p. 119.
[25] For a very interesting discussion of the Japanese case as setting precedent for the regulation of trade by "voluntary" export control see Patterson (1966), ch. VI.

early 1970s by a very large number of self-restraint agreements covering electronic products, cars, steel, ball-bearings, Chemical fibres, TV sets, calculating machines, radios, tape recorders, Chemicals and banking. Of these perhaps the more important case was that of steel as the US government was able to extract both from Japan and from the EEC voluntary export restraints operated by the industry itself as exporters feared tougher policies approved by a protectionist Congress[26].

The impact of the early restrictions on trade in manufactures on products of specific Latin American interest was not significant as, by the early 1960s, these had limited importance in terms of shares of specific markets. However, as more and more products started to be affected as well and, as mentioned in section 3, manufactured exports of Latin American countries responded to less autarkic economic policies these exports started to suffer. These trends would be immensely aggravated by the oil shock as markets contracted in developed countries while the importance of developing country exports in the total supply of manufactured goods grew, fuelling a renewed protectionist wave as discussed in detail in the following section of this Report. It should be clear, however, that although still quantitatively irrelevant for Latin America neoprotectionism affecting manufactured products from the mid-1970s was, in terms of precedent and instruments, firmly based on previous experience in the 1950s and the 1960s.

Besides quantitative restrictions, other non-tariff barriers relevantly affected trade in manufactures before the first oil shock, including exports by developing countries, tough it is very difficult to assess their true importance[27]. Of the extensive list included in Appendix B public and quasipublic procurement policies, State aid to industry and quality standards and packaging regulations seem to be more relevant. This seems more so, perhaps, after the mid-1970s, especially in the case of shipbuilding as the supply capabilities of developing countries increased and the lack of competitiveness of shipping-yards in the developed countries was increasingly compensated by higher subsidies.

2.3. GATT rules and the evolution of the post-war trade regime before the first oil shock

The origins of the GATT can be traced back to the US government's wish to use the extensive powers to negotiate tariff cuts granted to it by the American Congress in 1946 with a view to the coming United Nations-sponsored International Conference on Trade and Development to be held in Havana in 1948. As such authority was granted for a limited period of US administration pressed some of its leading trading partners to negotiate preliminary arrangements to be embodied in a

[26] Curzon and Curzon (1976), pp. 269-273. It must be mentioned that the US Administration has a tradition of extracting results in economic diplomacy based on fears about the possible reaction of Congress. That is, in general, the weight of the influence of the Administration over Congressional vote is understated.

[27] See, for instance, Greenaway (1983), ch. 9 and Yeats (1979), pp. 112-27.

General Agreement on Tariffs and Trade, eventually signed as a provisional protocol in 1947 in Geneva, pending the realization of the Havana Conference. However, as the US Congress failed to ratify the International Trade Organization charter emerging from the conference, the GATT's provisional protocol not only was made permanent but grew as the principal institution governing International trade relations in the post-war era.

As an unilateral US government initiative it is not surprising that the original GATT charter should reflect principles long defended by American government officials[28]. The original GATT provisions were, therefore, those of non-discriminatory multilateralism from which American trade was expected to benefit given the US hegemonic post-war position in the world economy. Thus, the two basic principles of the GATT were that "member countries should grant one another treatment at least as favourable as they grant any other country" (the "most-favoured-nation" principle), and the tariffs-only norm that "protection should be afforded to domestic industries exclusively through the customs tariff and not through other commercial measures (such as quantitative restrictions), and the level of protection should be progressively reduced through successive tariff negotiations"[29].

However, from the very start concessions had to be made by the American negotiators both at home, to appease the traditionally protectionist mood of the U.S. Congress, and abroad, to accommodate old established discriminatory practices of the main European Allies.

Besides, beyond the principles outlined in the Articles of its 1947 charter, GATT had no fixed rules to follow as it evolved in its new and much more complex role of a permanent body responsible for providing a forum for the conduct of trade negotiations among its members. It came to perform this function not only through sponsoring periodical multilateral "rounds" of trade negotiations but by providing a permanent machinery for consultation, debate and settlement of commercial policy disputes builds a body of principles which may eventually be incorporated into the terms of the Agreement itself.

To discuss how GATT rules have affected the trade of Latin America it is thus interesting to analyse how these rules have been originally drafted to face the realities of the immediate post-war situation and how they have been continuously adapted to the evolution of the trade regime among its leading members.

An important departure of original GATT principles was the Progressive and pervasive introduction of non-tariff barriers, especially of quantitative restrictions, as discussed above. The seeds for the introduction of those restrictions can, however, be found in the original GATT rules. In the case of agricultural products, the Geneva negotiators had to reconcile their drive for free trade

[28] As Dam (1970) puts it, the GATT "contains most of the provisions on commercial policy supported in the 1940s by United States Department of State Officials. The General Agreement is therefore a sufficiently direct expression of United States views on the appropriate form of concerted international action in the commercial policy area". Dam (1970), p. 12.
[29] GATT (1964), p. 6.

with the widespread existence of price support programmes, export subsidies and import restrictions for temperature zone products in industrial countries – including prominently the US – as well as with their government's deep commitment to these policies. The result was the explicit breach of the "tariffs-only" principle as referred to agriculture embodied in Article XI: 2(c) allowing the imposition of quantitative restrictions on imports of agricultural products and its use and abuse by developed countries, as discussed in the previous section.

In the case of manufactures, the introduction of Controls was not explicitly allowed in the original GATT rules. However, this was not only permitted under exceptional balance of payments circumstances allowed for in the articles of the agreement, as the GATT also embodied a provision for exception according to which quantitative restrictions could be introduced in the case of "disruptive" import growth – the so-called "injury clause". This provision was a condition imposed by the US Congress for approval of Executive authority to negotiate the post-war trade treaties[30]. Thus, since the stabilization of balance of payments conditions in Europe, it was through the "injury" argument that most restrictive practices against manufacturing imports have crept in the post-war trade regime. In connection to this, a landmark in GATT rule-adaptation was its legitimizing of the US-sponsored Long Term Agreement in cotton textiles in the early 1960s, a bilaterally based trade restrictive agreement in total contradiction to GATT principles.

Another important breach of GATT basic principles refers to the organization of free-trade or preferential trade zones, a clear infringement of the MFN clause. As far as the trade of Latin America is concerned, the most damaging of these developing prior to the first oil shock has been the preservation and, from the early 1960s, the spread of neo-colonial preferences granted by several European countries to associated territories producing goods competitive with the exports of SELA members.

In fact, the GATT did not preclude the continuation of arrangements such as the British Commonwealth Area or the French Union. Moreover, subsequently to the formation of the European Customs Union in 1957, the EEC of six actively expanded its preferential trading areas in Africa and the Mediterranean basin. The Yaoundé Convention, signed in 1963 and renewed in 1969, formalized arrangements with eighteen former African colonies. Under the convention, in return to receiving duty-free or preferential treatment in their former territories, the EEC countries granted unrestricted duty-free entry for all industrial goods and for agricultural goods not covered by the EEC's Common Agricultural Policy. In this case, the African signatories were exempted from a part of the import duty – generally the fixed part but, in some cases, even from a part of the variable levy.

The EEC's preferential ties with Africa were enlarged in the Arusha Agreement, effective in

[30] See Gardner (1969), p. 159.

1971, signed with Kenya, Tanzania and Uganda. The latter received duty free access on terms similar to those granted in the Yaoundé Convention (though limited on products of special export interest to Yaoundé signatories) in return for tariff reductions, without losing their status as members of the British Commonwealth.

The Community's so-called Mediterranean Policy also enlarged its preferential trading area, starting with agreements with Greece and Turkey in the early 1960s and including a number of countries until the early 1970s[31].

A further aspect in the evolution of GATT operation which is of importance to Latin American and Caribbean countries relates to the limited extent of the spread of the benefits achieved in tariff negotiation rounds. The basic liberalizing impact of MTNs was expected to result from the iteration of the most-favoured- nation clause with the "reciprocity principle" also embodied in GATT rules, according to which gains accruing to negotiating parties should be in some sense equivalent. While reciprocity would provide a norm for negotiations, the MFN clause warranted the multilateral spread of the bilateral concessions.

However, in spite of the impressive results achieved in the successive multilateral trade negotiations (MTNs) until the mid-sixties as far as tariffs are concerned, it became increasingly clear that, given the uneven distribution of trading power and the existing differences in the industrial structures of developed and underdeveloped GATT members, the operation of its liberal and formally equitable rules were provoking great distortions in the distribution of the benefits of trade liberalization. In fact, although explicit criteria for gauging the value of tariff concessions were lacking in the GATT, the traditional approach has been to measure them as equivalent to import volumes in a given year multiplied by the tariff rate changes granted on those products[32]. This practice implied that in the "reciprocal bargaining" process established at MTNs, the substantive concessions covering industrial nations or trading blocs, usually the relevant suppliers of products on which concessions were being offered, and excluded products of export interest to developing countries.

Although the GATT's limitations to positively respond to the trade needs of underdeveloped countries was identified as early as the late 1950s and such problems formally placed in the GATT agenda in the early 1960s, no significant practical changes ensued. The only noticeable change was the rather formal recognition of the possibility of special treatment for developing countries under a new Part IV (Trade and Development) of the GATT, inserted in 1965, including a so-called Relative Reciprocity Principle (Article XXXVI, §8) whereby developing countries were allowed to benefit from tariff concessions negotiated by other parties even without making concessions of their own. However, the debate on the trade problems of the Third World in the first half of the 1960's was not

[31] For a detailed treatment of the evolution EEC's preferential arrangements see Murray (1977), p. 119 ff.
[32] On this, see, for instance, Weintraub (1977).

confined to the GATT. Indeed, after the U.N. General Assembly's 1961 resolution to call a conference on International trade and development, the growing LDC disillusionment with the GATT's effectiveness slowly undermined its position as a forum for the discussion of North-South trade relations. Not surprisingly, when the first United Nations Conference on Trade and Development (UNCTAD) was held in 1964, the problem of trade preferences, among many others[33], re-emerged in the shape of demands for a Generalized System of Preferences (GSP) to be extended by the industrial countries to all developing countries.

The advantages developing countries could derive from the GSP were twofold. Its immediate impact would be felt on the export earnings of a beneficiary country through the operation of static price advantages – caused by the tariff cut on its export products – increasing their competitiveness in the preference-giving country markets *vis à vis* domestic production and imports from third countries. By helping to overcome the limitations imposed on industrialization by the size of domestic markets in developing countries, their increased access to developed country markets was also expected to bring important dynamic advantages through the stimulus to faster productivity growth in the beneficiary countries. Although these long-run advantages are difficult to quantify, they provided an important argument for the concession of tariff preferences to developing countries.

The OECD countries did not present a united front against the idea. The United States, which had traditionally been in the forefront of the opposition to the concession of tariff preferences on the grounds that this would not justify a formal breach of GATT's non-discrimination principle, reinforced its traditional argument by adding that with the low OECD tariff levels to be achieved after the Kennedy Round, the gains from preferential treatment would be small. The real motives underlying the U.S. traditional negotiating position was, however, that a formal breach of the MFN clause would open the door for trade regionalization along bilaterally negotiated preferential lines, a trend which had the support of some European countries which envisaged to use the concession of tariff preference to former colonies to promote their own national objectives and was clearly detrimental to U.S. economic and political interests[34]. Thus, when to increasing developing countries' pressure was added the growing threat of proliferation of regional preferential agreements on the lines of the "Mediterranean Policy" of the EEC and the Yaoundé Convention, the Americans rapidly evolved towards accepting the GSP as a defensive stance.

U.S. adherence to the GSP idea – the removal of the major stumbling block to the progress of the talks on trade preferences – was announced in April, 1967 and, when unanimous agreement on the establishment of a GSP was reached at UNCTAD's 1968 New Delhi meeting, the OECD countries submitted their preference offers. Finally, the required reform of Article I of the GATT took place in

[33] On this, see UNCTAD (1964).
[34] Murray (1977), pp. 14-7.

the form of a 10-year waiver of the MFN clause in June, 1971. In the next five years the various GSP schemes were established: by the EEC, Japan and Norway already in 1971; by Austria, Denmark, Finland, New Zealand, Sweden, Switzerland and the United Kingdom in 1972[35]; by Canada in 1974 and, by the United States in 1976. The impact and the limitations of these schemes will be analysed in the following section.

3. The spread of protectionism since the first oil shock

The exacerbation of already existing adjustment problems in industrial countries, induced by the two oil shocks and world financial instability, is undoubtedly the most powerful influence explaining the recent changes in the legal framework governing trade relations between Latin American countries and their industrialized trading partners. Lower investment levels and growing structural unemployment during the past decade contributed to create a climate favourable to anti-liberal policies. This led, on the one hand, to the rapid and steady extension of unilateral neo-protectionist measures against several products of interest to developing countries. On the other hand, it unfavourably affected the implementation of agreed multilateral trade liberalization measures as the several national GSPs and, more significantly, the decisions of the last GATT-sponsored MTN – the Tokyo Round – called in the 1973 ministerial meeting and completed in 1979.

This section discusses how the outcomes of both the last MTN and the rising tide of neoprotectionism in industrial countries – with special reference to the United States and the EEC – affected Latin America. As Section 2, it is divided into three sub-sections. The first addresses the questions relating to tariff protection and preferential tariff treatment. The second describes and evaluates the impact of the mounting non-tariff barriers as applied against both primary and manufactured products of export interest to developing countries. The third subsection appraises the evolution of GATT rules and its bearing on the trade interests of Latin American and Caribbean countries.

3.1. Tariffs and tariff preferences

The 1970s witnessed two important changes in the structure of tariffs facing developing countries in industrial country markets: a further substantial cut in most developed country MFN tariff rates following the Tokyo Round, accompanied by the implementation of the GSP in several countries and successive renewals of the EEC's regional preferential agreements.

[35] When, subsequently, some of these countries joined the EEC, their individual GSP schemes were terminated.

3.1.1. Tariffs

The Tokyo Round maintained the post-war trend towards lower average tariffs in OECD countries. Though less ambitious than the initial proposals, import weighted average tariff rates were reduced by about 33%, the cuts being spread over a period of eight years after 1979[36]. When the full extent of the negotiated tariff reductions becomes effective in 1987, import weighted average tariff rates will be about 4.3% for the United States and between 5.2% and 6.9% for the members of the EEC of nine. For Japan, which anticipated the full implementation of the cuts to March 1983, the comparable figure is 2.9%.

Tokyo Round tariff cuts did not result in greater harmonization of tariffs, nor were percentage cuts evenly spread across sectors. GATT estimates show that for products of interest to developing countries tariff reductions were smaller, the fall in the import weighted rate for those products nearing just 26%[37]. In fact, the bulk of agricultural products has been excluded from tariff cuts as well as "sensitive" industrial products such as textiles and footwear.

It has been calculated that the impact of Tokyo Round tariff reductions on developing country exports other than textiles was of no more than about 2%, less, in fact, than would be gained from a similar tariff cut only on textile exports of such countries[38]. Average tariff cuts affecting exports of developing countries were smaller than average tariff cuts on the total import bill of developed countries, a logical consequence of the fact that many developing countries specialize in the production of so-called "sensitive" products excluded from the Tokyo Round[39]. Moreover, it would seem that developing countries gains related to the Tokyo Round were rather concentrated, basically favouring a small number of relatively larger economies such as Taiwan, Hong Kong, South Korea, The Philippines and Mexico[40].

Although even before the end of the Tokyo Round the role of tariffs as a major instrument of protection had substantially declined, in certain countries and for specific product classes of export interest to developing countries tariffs still provided significant protection. This situation did not change since 1979 as can be seen in Table 3.1, which also illustrates the fact that tariff structures do not vary markedly between importing countries.

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[36] Balassa (1980), pp. 97-8.
[37] GATT (1979), pp. 120-22.
[38] Cline *et al*. (1978), pp. 211-212.
[39] Developed countries when defending the larger tariff cut which favoured their exports pointed out that cuts on many products not currently identified as of developing country interest would create long-term opportunities for these countries as they developed their competitiveness in relation to the supply of these products. But how could this happen if increased penetration of the developed countries' markets by developing countries' exports was to be increasingly met by non-tariff barriers? It would seem that, after all, the Tokyo round results were indeed unambiguously more favourable to developed countries. See Hudec (1984), p. 58.
[40] Cline *et al*. (1978), pp. 213-214.

However, industrial country tariff structures tend still to exhibit a large systematic variation between product classes. Products such as tobacco, beverages, vegetables and vegetable products as well as manufactures as textiles, wearing apparel, footwear and leather and rubber goods face relatively high MFN duties everywhere, while the opposite is true of commodities such as most other manufactured products, fuels, Chemicals, metals and minerals[41].

Generally speaking, products facing high rates are those not contemplated by reciprocal concessions negotiated in MTNs, as discussed in Section 2. Indeed, among the vast class of manufactured goods - products in which tariff concessions tended to concentrate during MTNs – not only tariffs are generally low, as tariff dispersion is also very low. As Table 3.2 shows, the bulk of developing country exports to the US, the EEC and Japan tend to concentrate in tariff categories paying up to 10% duty. The large concentration in the over 20% bracket in the US case shown in Table 3.2 only reflects the high tariffs levied against textile and apparel, since in the US tariffs are still an important form of protection against industrial country suppliers who remained exempt from Multifibre Arrangement quotas applying to developing countries[42].

Table 3.1

Tariff rates facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Average post-MTN tariff rates %		
			USA	EEC	Japan
0011	Bovine cattle	103648	3.2	0.0	0.0
0012	Sheep, lambs and goats	1194	-	11.2	-
0111	Meat of bovine animals	45959	5.6	8.0	-
0112	Heat of sheep and goats	1799073	1.8	2.9	4.9
0114	Poultry, killed or dressed	153058	1.8	0.0	15.0
0138	Other prepared or preserved meat	430013	1.9	22.9	22.5
0311	Fish, fresh chilled or frozen	1657432	0.0	10.2	4.8
0313	Crustacea & molluscs, fr. chilled/froz.	1790720	2.1	9.5	4.7
0320	Fish in airtight containers	1594379	0.7	13.5	12.6
0410	Wheat unmilled	367171	2.8	0.0	-
0422	Rice, glazed or polished	98408	2.6	0.0	15.0
0430	Barley, unmilled	202	-	0.0	-
0440	Maize, unmilled	1508847	0.2	0.0	1.1
0459	Cereals, unmilled, n. e. s.	51612	0.4	0.0	5.6
0511	Oranges, tangerines or mandarines	549486	7.5	10.3	18.4
0513	Bananas	219228	0.9	9.0	31.0
0514	Apples, fresh	295450	0.4	4.7	8.0
0517	Edible nuts, fresh/dried, inc. coconuts	667655	0.7	3.4	23.6
0520	Dried fruit	1656011	0.3	11.8	16.0
0535	Fruit and vegetable juices	513971	33.1	13.2	23.1
0539	Fruit & nuts, prepared or preserved	838080	1.9	20.2	27. 1

[41] UNCTAD (1983B), p. 9.
[42] Cline (1984), p. 53.

Table 3.1 (continued)

Tariff rates facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Average post-MTN tariff rates %		
			USA	EEC	Japan
0541	Fresh potatoes	129048	11.1	7.0	10.0
0542	Beans, pens and lentils	292283	2.6	2.3	6.3
0544	Fresh tomatoes	6941291	9.4	11.9	5.6
0548	Vegetable products, roots & tubers	1022259	2.9	5.7	13.4
0554	Flour & flakes of potatoes	25947	3.0	9.0	16.3
0555	Vegetables, prepared/preserved, n. e. s.	631921	14.2	19.5	21.5
0611	Raw sugar, beet & cane	91057	0.4	0.0	-
0612	Refined sugar	2895162	12.4	0.0	34.3
0615	Molasses	4159157	0.1	0.0	57.9
0711	Coffee, green or roasted	7568708	0.0	5.0	0.0
0713	Coffee extracts	4100501	0.0	15.6	17.6
0721	Cocoa beans, raw or roasted	658254	0.0	2.9	0.0
0723	Cocoa butter or paste	534463	0.0	12.1	4.1
0741	Tea	781207	0.0	0.2	20.7
0752	Spices, exc. pepper and pimento	135876	0.0	9.0	6.3
0813	Vegetable oil-seed cake & meal	1733571	3.2	0.0	0.0
1210	Tobacco, unmanufactured	1072673	11.5	0.0	355.0
2214	Soya beans	1086964	0.1	0.0	2.5
2433	Sawn lumber, planed/grooved, non-conifr	4507258	0.0	0.2	2.8
2517	Sulphate wood pulp	2347974	0.0	0.0	2.2
2621	Sheep & lambs wool, greasy	95876	4.5	0.0	0.0
2622	Sheep & lambs wool, degreased	123878	4.8	0.0	0.0
2631	Raw cotton	1135520	0.4	0.0	0.0
2741	Sulphur	943353	0.0	1.1	-
2769	Crude minerals n. e. s.	236621	0.1	0.3	0.0
2813	1ron ore and concentrates	772487	0.2	-	0.0
2831	Copper ore and concentrates	610015	0.0	0.0	0.0
2832	Nickel ores	248949	0.0	0.0	4.1
2839	Non-ferrous ores n. e. s.	2259739	0.0	0.0	0.0
2927	Cut flowers	182495	7.4	16.0	0.3
2929	Materials of vegetable origin n. e. s.	278289	0.7	0.6	1.5
3214	Coal	191732	0.0	1.5	0.0
3218	Coke	62744	0.0	0.0	3.0
3310	Crude petroleum	139877206	0.3	0.0	-
3321	Motor spirits inc. gasoline	451579	0.3	7.0	-
3322	Lamp oil	991903	0.4	7.0	-
3323	Distillate fuels	11413783	0.4	7.0	-
3324	Residual fuel oils	22876183	0.8	4.7	2.5
3411	Natural gas	8857617	0.0	1.3	2.3
4212	Soya bean oil	105738	0.7	0.0	-
4216	Sunflower oil	280396	0.0	0.0	-
4221	Linseed oil	41964	0.0	-	6.4
4223	Coconut oil	1298832	0.0	6.9	6.1
5121	Hydrocarbons	914037	0.2	1.1	3.1
5122	Alcohols & phenols	523166	3.0	20.2	26.4

Table 3.1 (continued)

Tariff rates facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Average post-MTN tariff rates %		
			USA	EEC	Japan
5133	Inorganic acids	132284	0.0	6.6	3.0
5136	Other inorganic bases	319177	0.0	5.8	3.7
5417	Medicaments	606623	1.9	4.3	4.0
5619	Fertilizers n. e. s.	280098	0.0	4.9	6.1
5713	Pyrotechnical articles	38569	5.3	4.9	3.6
5812	Products of polymerization	870091	0.9	9.4	5.9
6114	Leather or other bovine cattle	349163	0.8	4.1	12.4
6119	Leather n. e. s.	544792	0.5	2.4	4.3
6312	Plywood	854842	7.0	5.7	17.8
6412	Other printing paper	7846433	0.0	5.6	4.3
6513	Cotton yarn and thread	782170	6.5	4.5	3.4
6516	Yarn & thread of synthetic fibres	446234	9.4	6.8	6.0
6521	Cotton gauze	164761	7.7	7.5	-
6522	Cotton fabrics, woven	1175175	9.6	7.5	5.7
6531	Silk fabrics, woven	279073	0.6	5.1	10.0
6534	Jute fabrics, woven	172973	0.0	6.7	15.3
6535	Fabrics of synthetic fibres*	818717	19.3	8.5	7.2
6540	Tulle and lace	212024	6.2	4.7	12.2
6556	Cordage	197707	1.4	8.3	4.7
6561	Textile bags and sacks	65478	5.1	5.5	11.6
6562	Made-up canvas goods	59556	8.5	10.5	3.9
6569	Made-up articles of textiles n. e. s.	701420	6.0	9.5	8.3
6575	Carpets	1093257	5.3	7.2	7.3
6672	Diamonds	1822	1.5	0.0	0.0
6673	Other precious stones	2308676	0.0	0.0	1.7
6715	Other ferro alloys	944584	1.1	4.4	3.2
6727	Iron & steel coils	471292	4.2	3.2	3.0
6732	Iron bars & rods	228515	2.6	3.3	3.0
6734	Iron & steel shapes & angles	37976	1.0	3.4	3.0
6741	Iron & steel plates	45167	5.2	-	-
6743	Plates & sheets, less than 3 mm	1789310	5.9	3.9	3.0
6782	Seamless tubes & pipes	25257	3.2	6.7	-
6783	Welded tubes & pipes	716316	2.2	7.5	3.0
6821	Copper & alloys unworked	2563383	0.8	0.0	4.2
6822	Wrought copper	322479	0.0	4.5	3.8
6831	Unwrought nickel	384330	0.0	0.0	0.5
6841	Unwrought aluminium	1648824	0.1	4.5	6.7
6842	Wrought aluminium	450320	0.8	7.4	6.8
6851	Unwrought lead	793758	4.0	1.1	3.4
6871	Unwrought tin	1915886	0.0	0.0	0.0
6894	Tungsten & molybdenum	107298	4.0	6.2	1.7
6911	Finished structural parts of iron	167270	0.7	3.0	3.0
6931	Wire cables not insulated	1165254	0.3	4.2	3.4
6960	Cutlery	209863	12.9	10.9	3.1
6972	Domestic utensils of base metals	398624	1.6	4.2	3.1

Table 3.1 (continued)

Tariff rates facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Average post-MTN tariff rates %		
			USA	EEC	Japan
7115	Internal combustion engines	2099146	1.2	3.7	1.8
7125	Tractors	166126	3.2	7.4	3.2
7193	Statistical machines	587686	3.2	3.6	3.4
7151	Metal working machine tools	923946	1.0	3.3	2.2
7189	Construction machinery n. e. s.	289035	0.9	4.0	2.3
7199	Machinery parts n. e. s.	679447	0.8	3.4	2.4
7221	Electric power machinery	943490	2.7	4.0	3.0
7222	Electrical apparatus	1125589	4.8	3.5	2.2
7231	Insulating wire & cable	1008802	1.7	4.9	4.4
7291	Television broadcast receivers	277957	5.4	0.0	2.4
7292	Radio broadcast receivers	316711	4.7	-	2.4
7299	Telecommunications equipment n. e. s.	4025510	4.4	8.4	2.5
7250	Domestic electrical equipment	940489	1.8	3.3	2.0
7291	Batteries & accumulators	203770	3.4	5.1	3.3
7293	Thermionic valves	3673181	4.2	9.7	2.6
7321	Passenger motor cars	794	22.9	15.0	3.0
7322	Buses	138	2.5	15.0	3.0
7323	Lorries & trucks	1176834	2.5	8.4	3.0
7328	Bodies of motor vehicles	1308493	2.9	4.9	1.8
7353	Ships & boats	528531	1.0	0.4	0.1
8210	Furniture	1732250	1.9	4.2	3.2
8310	Travel goods	956451	17.0	4.2	8.8
8911	Clothing of textile fabrics	8632882	18.0	10.3	10.8
8913	Leather clothing & apparel	669553	7.4	6.2	12.3
8920	Fur clothing	604972	4.2	4.5	14.3
8510	Footwear	2027632	10.0	8.7	9.1
8691	Watches & watch movements	1348913	0.6	3.8	3.3
8911	Phonographs and sound recorders	625463	2.8	7.1	2.6
8930	Articles of artificial plastic material	1111062	1.8	6.3	4.3
8992	Children's toys & indoor games	1801740	3.8	5.6	4.6
8999	Other sporting goods	589160	2.4	4.6	2.8
8960	Works of art & collector's pieces	729457	0.0	0.0	0.0
8992	Basketwork etc. of plaiting materials	414525	0.8	4.8	6.6

Source: UNCTAD (1985), Part 1, Annex I, pp. 3-5.
Notes: Includes SITC Item 6536 (fabrics of regenerated – artificial – fibres) to facilitate concordance with tariff classifications.

The Tokyo Round also did not change the built – in bias against processed primary products existing in industrial country tariff structures. Data on effective protection after the latest MTN are scanty. However, the situation is still broadly similar to the one presented in Section 2, where nominal tariff escalation was shown to be responsible for significant protection in the higher stages of fabrication.

Table 3.2

Tariff frequency by value of imports on manufactured goods imported from developing countries* (in percent)

%	United States	EEC	Japan
Less than 5 percent	69.1	40.5	25.1
5 to 10 percent	10.5	38.1	56.5
10 to 15 percent	5.3	12.4	13.1
15 to 20 percent	0.3	0.0	1.9
Over 20 percent	14.4	0.0	3.4
Average Tariff	6.8	4.9	7.3**

* Manufactured imports include ISIC classes 3111 to 3909, excluding 3530 (petroleum refineries). The tariff rates are post-Tokyo Round duties after full implementation of negotiated reductions and include zero tariff on non-dutiable items.

** Excludes tobacco.

Source: Cline (1984), Table 2-1, p. 53.

This problem is particularly serious in the case of agricultural materials and, in fact, some attention was given to the case of tropical products during the Tokyo Round. However, although nominal tariff differentials between stages of processing have in many cases been lowered, the rate of effective protection was not generally reduced, as proportionally larger cuts tended to be made at the lower stages of processing[43]. Indeed, as post-Tokyo Round evidence available for some selected processes tropical agricultural products of special interest to developing countries shown in Table 3.3 indicate, effective protection remains very high, at least in the EEC. It should also be noticed that as price elasticities of demand are generally much higher for processed than for primary products[44] even the same tariff applied throughout the processing chain will produce a bias against trade in processed goods.

Table 3.3

Post-Tokyo Round Effective Protection for Selected Processed Agricultural Products in the E.E.C. (%)

Product	Effective Protection
Cocoa liquor	70
Cocoa butter	53
Cocoa powder	75
Coconut oil, industrial	28
Coconut oil, edible	48

Source: Commonwealth Secretariat (1982), p. 47, quoting Commonwealth Secretariat/World Bank studies on industrial processing of primary products.

[43] UNCTAD (1979A), *passim*, and Commonwealth Secretariat (1982), p. 47.

[44] On this, see Stem (1976).

3.1.2. Tariff preferences

3.1.2.1. Tariff preferences under the EEC

Three types of preferential regimes are relevant in the case of the EEC since the early 1970s: the preferences granted to ACP countries under the Lomé Convention, the preferential agreements – involving in some cases association to the EEC – entered with Mediterranean countries and EEC's GSP scheme. The first two systems of preferences are of exclusive EEC interest, while all developed countries are involved in GSP, as described in Section 2.

3.1.2.1.1. Preferences under the Yaoundé and Lomé Conventions

As mentioned in Section 2, the Yaoundé Conventions of 1963 and 1969 formalized preferential arrangements between the EEC and eighteen former African colonies allowing duty and quota-free access to the EEC for many of these countries' products in return for reverse preferences for EEC products in these markets. Products covered by the EEC Common Agricultural Policy (CAP) received only partial duty deductions and were still subject to quotas. The Arusha Agreement of 1971 extended selective tariff preferences to some British ex-colonies. These tariff concessions were, of course, of a discriminatory nature and were, as such, object of much criticism by developing countries excluded from the advantages of preferential access to the EEC market.

The Lomé Convention of 1975, renewed in 1979 and 1985, extended preferential treatment to many developing countries with previous ties with EEC countries as well as to least developed countries. It also Consolidated previous preferential arrangements under Yaoundé and Arusha. The Lomé Convention initially covered forty-six ACP countries. In 1984 sixty-four countries were included in the scheme.

Concessions under the Yaoundé conventions had been severely eroded by both the preferential agreements entered by the EEC with countries in the Mediterranean area and the Generalized System of Preferences to which all developing countries had access. So the Lomé Convention was to include, besides trade preferences, financial aid provisions as well as a stabilization fund (Stabex) to be used by ACP countries whose exports had been hurt by a substantial fall in world prices (this initially covered twelve agricultural products and iron ore). Later Lomé concessions included improved access to the EEC market of products covered by CAP such as beef and vegetables, and the creation of a fund similar to Stabex to deal with mineral products' price fluctuations (Minex). Amounts of financial aid have, however, been at much lower levels than expected by ACP members and have not been

substantially increased over time[45].

The Yaoundé Conventions involved the concession of reverse preferences by ACP recipients to the EEC which, to the intense disgust of the American authorities, enjoyed privileged access to these markets. This system of reverse preferences was eventually discontinued due to U.S. pressure conditioning eligibility to U.S. GSP to effective adoption by Lomé members of MFN clause[46].

The successive Yaoundé and Lomé arrangements did little to increase ACP exports to the EEC as a share of total EEC imports. In fact, this share decreased in the 1970's while the share of developing countries as a whole increased quite significantly. The share of manufactured exports in total ACP exports remained very small, only ropes and cords showing a substantial rate of growth. This indicates severe restrictions in the supply response of these countries, making ineffective many nominal EEC concessions under Lomé. The share of total products covered by CAP also remained quite low[47].

Moreover, these has been a marked tightening in conditionality concerning Stabex transfers as well as on the use of financial aid[48]. Other EEC preferential arrangements, such as those under GSP and in the Mediterranean countries, continued to erode much of the competitive advantages of ACP countries under Lomé. More than 75% of ACP exports would enter the CEE duty free and some 90% of their industrial exports would in any case be eligible under EEC's GSP[49].

3.1.2.1.2. Mediterranean Preferences

Since quite early in EEC's history the question of association of other countries with the Community posed itself. Association of previously dependent territories was provided under the Yaoundé and Lomé Conventions, but association of countries without previous ties with EEC members was also possible always implying the establishment of preferential commercial ties with the EEC.

The first two countries to enter into association agreements with EEC were Greece and Turkey in the early 1960's. In the late 1960's, as already mentioned, the Arusha Agreement extended preferential treatment to certain former British colonies. Preferential agreements were entered with Israel, Spain and Yugoslavia and, as from 1972, a Mediterranean EEC policy began to take shape[50]. Industrial products from Mediterranean countries were to be offered reciprocal free entry, some

[45] For preferential agreements, generally see Murray (1977), pp. 199 ff. and Swan (1984), Ch. 11. For Lomé Conventions see Hewitt and Stevens (1981), Stevens (1984), and Stevens and Weston (1984).
[46] Hudec (1984), p. 59.
[47] Moss and Ravenhill (1983) and Stevens and Weston (1984).
[48] Stevens (1984).
[49] Commonwealth Secretariat (1982), p. 98.
[50] See Tovias (1977), pp. 70 ff.

concessions on CAP products were made, financial aid was provided. These agreements were eventually to cover every country in the Mediterranean basin: those of the Maghreb, those of the Mashrek, Cyprus, Malta as well as Israel, Yugoslavia, Portugal, and Spain.

EEC's Mediterranean initiatives based on reciprocal preferential trade agreements, were to face – as in the case of Yaoundé reverse preferences – the very determined and successful opposition of the US government as U.S. exports were dislocated by EEC similar products enjoying tariff preferences in the Mediterranean countries[51].

Trade preferences enjoyed by the Mediterranean countries in the EEC market, of course, tend to dislocate the exports of those countries not covered by other preferential arrangements. The bulk of Latin American and Caribbean countries' trade is therefore excluded from preferential treatment in the EEC: in fact, EEC's trade policy, based on trade preference, discriminates basically against this group of countries as they are the only large group of developing countries not covered by preferential trade agreements.

3.1.2.1.3. The EEC Generalized System of Preferences

EEC's GSP scheme was in operation by 1971. In 1980 it was renewed until 1990. Fundamental principles are full tariff exemption for most beneficiaries' exports of semi-manufactures and manufactures under various pre-conditions and within certain product-specific and country-specific annually fixed limits; full or partial duty exempt on for processed agricultural products under similar restrictions[52].

The scheme covered 125 countries in 1983. For cotton and textiles coverage is limited to signatories to the Multifibre Arrangement (MFA) and formerly to the Long-Term Arrangement Regarding Trade in Cotton Textiles (LTA). ACP and Mediterranean countries can opt out for the most favourable preferential agreement (either Lomé or GSP; either their specific agreement or GSP, respectively). For the relative importance of EEC's different preferential agreements see Table 3.4. Almost all manufactures and semi-manufactures are included in the scheme, whereas the number of processed agricultural products included has increased significantly in the past, especially in order to compensate certain Asian countries for their loss of Commonwealth preferences in 1978.

Besides a general escape clause for processed agricultural products a ceiling is annually established for each GSP item on the basis of past trade flows. Imports exceeding ceilings may face MFN treatment depending on the category a product is classified. There are three categories: non-sensitive products, semi-sensitive products (now only valid for textiles) and sensitive products.

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[51] See Tovias (1977), p. 76 ff. on the evolution of the US stand on trade preferences.

[52] Much of what follows is based in Langhammer and Sapir (1984), pp. 24 ff. See also Weston (1982).

For non-sensitive products ceilings are irrelevant as imports do not threaten domestic production and employment. Previously to 1981, the semi-sensitive category included borderline items expected to disrupt the domestic market and so under permanent surveillance. Now it is restricted to textiles as most formerly semi-sensitive products became sensitive. There is an effective tariff quota on imports which exceed ceilings in the case of sensitive products: these imports automatically face MFN duty.

There are further limitations to sensitive imports. The tariff quota for each item is divided into fixed member State quotas a system which imposes additional costs on triangular GSP imports. Moreover, a maximum amount rule applies to avoid the crowding out of smaller countries by the larger beneficiaries: the so-called *butoirs* limiting the share of any specific country range from 15% to 50% (for non-sensitive products). Table 3.5 presents relevant data on the ratio between GSP-receiving and GSP-eligible imports into the EEC before 1981.

Since 1981 tariff quotas and *butoirs* have been combined. in a new sub-category of very sensitive items where some competitive developing countries have been granted individual identical tariff quotas not as a share of imports but in absolute amounts. These are in turn also divided into member quotas. Other GSP suppliers of very sensitive products face facultative ceilings, so do all GSP beneficiaries in another sub-category of less sensitive items. In both cases, tariffs can be reimposed at the request of member States and have been reimposed in several instances, especially following West German requests. Observers have found it difficult to evaluate the new EEC GSP scheme as *butoirs* have been in many cases reduced in relation to the previous scheme[53].

Table 3.4

EEC Imports under Preferential Agreements with Developing Countries, 1980 (US$ Million)

Preferential Arrangements	Total Imports from Beneficiaries (1)	Dutiable Imports from Beneficiaries (2)	Imports Eligible for Preferential Treatment (3)	$\frac{(3)}{(2)}$ (%)	$\frac{\text{Duty Free}+(3)}{(1)}$ (%)
Lomé	24,543	7,587	7,549	99.5	99.8
Maghreb and Mashrek	12,552	4,270	4,113	96.3	98.7
Cyprus, Malta and Turkey	2,913	2,465	1,876	76.1	79.8
Yugoslavia (inc. GSP)	2,839	2,445	2,256	92.3	93.3
GSP (exc. Yugoslavia)	115,254	35,421	24,452	69.0	90.5
Total	158,101	52,188	40,246	77.1	92.4

Source: OECD (1983).

[53] Weston (1982).

Table 3.5

Percentage Share of GSP-receiving Imports in GSP Tariff Items in the EEC, 1978-1981

	1978	1979	1980	1981
Industrial products (excluding textiles)				
Sensitive	14.9	12.4	16.6	38.2
Semi-sensitive	29.1	40.1	40.8	n.a.
Non-sensitive	31.2	33.7	34.3	36.2
Textiles				
Sensitive	7.1	8.8	11.7	9.5
Semi-sensitive	49.8	63.2	50.4	37.9
Non-sensitive	65.0	62.9	71.0	71.3
Agricultural products				
Sensitive*	25.3	42.5	47.9	34.5
Semi-sensitive**	31.1	35.2	20.1	44.1
Non-sensitive	40.6	18.4	38.2	44.1
Total	26.8	26.2	30.9	32.8

* Tobacco, cocoa butter, canned ananas.
** Raw tobacco.

Source: Langhammer and Sapir (1984), p. 54.

3.1.2.2. The US Generalized System of Preferences

Among the leading OECD countries, it was the US which took longer to respond to the GATT waiver of a strict application of the MFN clause establishing the conditions for the creation of a Generalized System of Preferences, as discussed in Section 2. It was only in 1976 that the American GSP scheme was implemented, following authority given to the President of the United States to do so under Title V of the Trade Act of 1974. The initial scheme granting duty-free treatment for a list of eligible products and countries for a period of ten years has been extended with small changes until mid-1993 in the recent US Trade Act, passed at the end of 1984.

The regulations governing the original US GSP and, thus, its effectiveness as an instrument to foster the trade of developing beneficiary countries reflect both the American government's intention to use this unilateral concession as an instrument of broader international policy as well as the growing protectionist sentiment in the US following the first oil shock.

The former influence was responsible for the introduction of rules restricting the country coverage of the scheme. Section 502 of the 1974 Trade Act, which outlines criteria that should guide the President's choice of "beneficiary developing countries" explicitly forbade, among other restrictions, the designation of communist countries as well as those countries participating in international commodity cartels such as OPEC. While the first of these restrictions would exclude Cuba – though this is presently irrelevant given the US trade embargo – the second did prevent Ecuador and Venezuela from benefitting altogether from the scheme until March 1980 when a special

waiver was granted to them.

Protectionist fears, on the other hand, had the effect of drastically limiting the eligibility of a wide range of Products as well as the extent that eligible products coming from particular countries might benefit from duty-free treatment.

Besides the generally imposed limitation on GSP product coverage to industrial products and semi-manufactures, Section 503 of the 1974 Trade Act explicitly excluded textile and apparel articles subject to textile trade arrangements, footwear, watches, and many items considered to be import-sensitive among electronic, Steel and glass products. Moreover, authority was granted to the President to enlarge the list of import-sensitive items in the context of the GSP and, more recently, presidential power has been used to "graduate" product-country pairs from GSP eligibility[54].

Limits to the extent that specific product-country pairs should benefit from the US GSP were defined in Section 504 of the 1974 Trade Act. The Act set "competitive need limits" to imports of each product from each beneficiary country, which, if reached, would make imports of that product from that source no longer eligible for duty-free treatment in the following year. These limits stand at either 50% of total US imports of the product, or a dollar value yearly adjusted according to US GDP growth and which in 1984 stood at 63.8 million dollars.

Other limitations include rules of origin which, although aimed at ensuring a proper allocation of the benefits to developing countries, may have damaging effects upon the exports of SELA member countries. A well-known distortion is the one introduced by the requirement that the sum of direct cost of processing plus the cost of materials produced in the beneficiary country should equal at least 35% of the value of the product. It has been argued that this requirement has prevented multinational companies from exploiting the competitive margin afforded by GSP duty-free treatment by transferring production for sale in the US to beneficiary countries[55].

Fears that substantial restrictive changes concerning country and product eligibility would be introduced by the US legislative in the course of last years' revision of GSP rules were falsified. Although the law did suffer several modifications[56], the only significant changes introduced in the recent renewal of the American scheme under Title V of the 1984 Trade Act were those aimed at transforming it from an unilateral and non-reciprocal offer into an instrument apt to be used to extract reciprocal concessions in trade negotiations with the larger beneficiaries – the so-called "new

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[54] The policy of discretionary graduation was announced in USTC (1980). For a fuller analysis of the "graduation" issue, see below, pp. 59-62.

[55] See Murray (1977), pp. 89ff. Note, however, that US trade legislation allows groups of countries associated under economic integration arrangements to be treated, if so designated by the US President, as a single unit. This rule presently allows Andean Group, CARICOM and CACM countries (with the exception of Nicaragua) to benefit from having a *cumulative* 35% value added requirement. On this see SELA (1984), p. 155.

[56] As, for instance, the introduction of an upper limit of US$ 8,500 for country eligibility, a limit not likely, however, to be reached by any Latin American or Caribbean country in the near future. For a thorough discussion of particular changes introduced in the US GSP by the 1984 Trade Act, see SELA (1985), pp. 30 ff.

negotiability" introduced in the US GSP.

These changes, which reflect the broader trend towards "reciprocity" as a new approach in US trade policy-making and which, as discussed at greater length in Section 5, basically seeks to achieve bilateral reciprocity in levels of protection and over a certain range of products[57], were twofold. Firstly, power was given to the President of the US to waive competitive need limits on specific products altogether. Secondly, Section 504 of the Trade Act establishes as Executive responsibility the undertaking of periodical general reviews of GSP exports from each beneficiary country – the first to be completed not later than January 4, 1987 – aimed at identifying those products in which the beneficiary has demonstrated a "sufficient degree of competitiveness" so that, in relation to those products competitive need limits should be halved.

Criteria for gauging the beneficiaries "degree of competitiveness" were not elaborated in the 1984 Trade Act, but have recently been put forward by the Office of the US Trade Representative[58]. In addition to reaffirming the loose rules which allegedly guided GSP discretionary graduation to date, emphasis will be given to the extent to which the beneficiary has assured Americans of equitable treatment or has taken steps of liberalize trade in areas of specific export interest to the US such as Services.

Gains accruing to developing countries from the operation of the GSP vary widely among beneficiaries. Those gains arise from the competitive margin afforded by the tariff preference over both domestic producers in the donor country and alternative, non GSP-beneficiary, suppliers. The extent of the potential benefits derived varies directly with the amount of the beneficiary's trade with the donor country which is subject to MFN duties. In the case of the US, given the size of these flows and the American tariff, potential benefits will depend on the commodity structure of the beneficiary's exports to the US, which defines its duty-free eligible trade. The actual extent of the preferential margin on GSP eligible products – which potentially should equal the MFN tariff on those products – will depend, however, on the effect of the various *ad hoc* restrictions on GSP eligible trade. Therefore, not only actual benefits arising from the operation of the US scheme tend to be concentrated in the larger trade partners among beneficiary countries[59], as the potential benefits accruing to a particular country are in practice reduced by the statutory limitations on product coverage as well as by the effect of *ad hoc* restrictions, of which by far the most important relates to competitive need limits.

A measure of the extent to which these protectionist limitations on product coverage restrict the

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[57] Cf. Cline (1983), p. 121.

[58] See *Federal Register*, vol. 50, nº 31, 14 February 1985, pp. 629 ff.

[59] Taiwan, South Korea and Hong Kong – the three leading beneficiaries of the US GSP – reap about two-thirds of its benefits of which about 90% accrue to the top 10 beneficiaries, among which México and Brazil can be courted. See Langhammer and Sapir (1984), p. 60.

actual benefits from the US GSP is given in Table 3.6. It can be seen that, in 1983, competitive need limits reduced actual duty-free treatment to SELA member countries to just about one half of eligible products' exports. Indeed, the incidence of competitive need and discretionary graduation is higher for Latin America than for the rest of US GSP beneficiaries: in 1982, although total Latin American eligible GSP exports amounted to 40% of total US GSP eligible imports, the regions' share of US duty-free imports under the GSP was around 20%[60].

Not only exporters such as México and Brazil derive not insignificant benefits from the American scheme by virtue of the size of their exports to the US as, for individual countries, depending on the commodity structure of their exports to the US, preference margins can be substantial, as shown in Table 3.7. Although these figures, being average MFN duties on eligible GSP trade, tend to overestimate the actual margins due to the host of restrictions placed upon eligible GSP exports in practice, they serve to qualify the usual argument that the substantial fall in average MFN tariff rates in OECD countries since the war has made GSP preferential margins irrelevant.

Table 3.6
Exclusion of imports from SELA member countries in the US GSP scheme in 1983 (US$ million)

Country	Total Imports (1)	GSP eligible Imports (2)	Excluded (3)	Effectively entitled (4)	(4)/(2) (in %)
Argentina	931	315	77	238	75.5
Barbados	205	59	1	58	98.3
Bolivia	154	30	-	30	100
Brazil	5381	1170	428	742	63.4
Chile	971	514	419	95	18.4
Colombia	1054	176	87	89	50.5
Costa Rica	453	62	3	59	95.1
Cuba	-	-	-	-	-
Dominican Republic	751	289	172	117	40.4
Ecuador	1519	10	-	10	100
El Salvador	352	40	-	40	100
Guatemala	404	82	3	79	96.3
Guyana	72	15	-	15	100
Haiti	351	178	32	146	82
Honduras	435	65	4	61	93.8
Jamaica	367	38	-	38	100
Mexico	17013	3859	2261	1598	41.4
Nicaragua	106	29	-	29	100
Panama	372	71	4	67	94.3
Paraguay	34	n. a.	n. a.	n. a.	n. a.
Peru	1158	156	6	150	96.1
Suriname	68	-	-	-	-
Trinidad & Tobago	1357	5	-	5	100
Uruguay	123	43	-	43	100
Venezuela	5158	258	9	249	96.5
Total	38740	6964	3508	3456	49.6

Source: SELA (1984), Tables 28 and 36.

[60] Pelzman (1983), quoted *in* SELA (1984), p. 159.

Table 3.7
Average preference margins on SELA members' GSP exports to the United States

Country	1980	1981	1982
Argentina	11.93	11.62	6.30
Barbados	15.57	12.92	13.10
Bolivia	7.30	5.37	9.20
Brazil	4.95	4.99	4.70
Chile	2.05	2.60	1.90
Colombia	13.90	13.06	8.10
Costa Rica	15.48	15.92	14.40
Cuba	-	-	-
Dominican Republic	5.09	5.14	5.40
Ecuador	15.73	11.39	17.70
El Salvador	12.79	15.74	17.60
Guatemala	16.16	13.41	9.00
Guyana	n. a.	n. a.	n. a.
Haiti	9.69	5.98	7.20
Honduras	13.29	13.09	10.50
Jamaica	15.54	7.94	9.60
Mexico	8.31	7.18	7.30
Nicaragua	11.48	15.47	16.60
Panama	17.58	16.12	n. a.
Paraguay	n. a.	n. a.	n. a.
Peru	4.23	3.62	7.30
Suriname	n. a.	1.00	n. a.
Trinidad & Tobago	2.21	2.20	5.00
Uruguay	5.15	5.27	4.20
Venezuela	2.71	2.62	7.70

Source: SELA (1984), Table 38.

3.1.2.3. A comparison of the main GSP schemes and the "graduation" issues

Comparison between EEC's GSP and the US GSP schemes are marred by the fact that EEC's GSP is not the only EEC scheme which provides for preferential treatment of developing countries' exports as it exists, as already mentioned, an important super-position of preferential regimes between Lomé and GSP as well as between Mediterranean arrangements and GSP. Considering strictly GSP trade it would seem that the US scheme has a more significant impact on trade as about 50% of GSP-covered imports entered the US free of duty as opposed to about a third in the EEC. While trade expansion due to GSP is *a priori* expected to be larger in the EEC than in the US due to larger preference margins in the former, tariff quotas are more relevant exactly in the case of products for

which trade preference margins are relatively large, thus a priori initial expectations are probably frustrated.

Bearing such limitations in mind Table 3.8 presents relevant data on the main GSP schemes. The data shows for CCCN 1-24 (primary products) much smaller GSP theoretical coverage than for CCCN 25-99 as could be expected. When it comes, however, to the share of actual GSP imports in MFN dutiable imports, there is not much difference between the two categories in the EEC. In fact, this share is more-or-less equivalent in all three most important GSP schemes (around 20%); it is in the treatment of CCCN 25-99 (manufactured goods mainly) that the schemes contrast. While 51% of the MFN dutiable imports of such goods are accorded GSP treatment in Japan, 26% have this treatment in the EEC and only 13% in the US scheme. It is of course true that GSP preference does not always entail duty-free entry under EEC's GSP scheme but it is also the case that a much higher share of US trade with GSP beneficiaries is dutiable.

Criticisms to GSP have been made under many headings. Some are of quite a general nature, pointing out, for instance the laggard growth of GSP actual trade in comparison with total trade as GSP trade increased in the 1970's only marginally above total trade. Others are more specific singling out the excessive concentration of GSP benefits in some more competitive developing countries and the important restrictions still placed by donor countries on access to GSP preferences in the form of *butoirs* or competitive need ceilings. Other still, are specifically aimed at EEC's GSP scheme. Recent work has tended to stress the importance of GSP: trade expansion under aggregate EEC, Japan and US schemes corresponded to about 28% of these developed countries' imports of preferential products (16% for the EEC, 56% for Japan and 20% for the US)[61].

Data on GSP's largest beneficiaries are presented below in Table 3.9. This information should be interpreted very carefully as, as already mentioned, the other EEC preferential schemes make difficult the comparison between shares of main beneficiaries in different GSP schemes. It is very clear that a very large share of total imports under GSP originates in a limited number of larger competitive economies. Indeed, it would be surprising if this were not the case. Such concentration has given much ammunition to the proponents of the widespread adoption of the so-called "graduation" of developing countries. The principle of graduation has been a cherished US project now for many years. The principle's pillar is the idea that as a developing country reaches a certain "level of development" it should be "graduated", i.e., it should increase its participation in the GATT by, among other things, opening up the domestic market to the competition of imports in return for developed countries' tariff concessions. A graduated country would automatically lose its preferential treatment in trade matters as well as access to cheaper sources of finance as the World Bank.

[61] Elaborated from UNCTAD (1984A), p. 15.

Table 3.8

Imports of the EEC, Japan and the US under GSP, 1980 (US$ million)

(1)	(2) Total Imports from Beneficiaries	(3) MFN Dutiable Imports	(4) GSP Covered Imports	(5) GSP Preferential Imports	(6) (4)/(3)	(7) Shares % (5)/(4)	(8) (5)/(3)
EEC - The Nine*							
CCCN 1-24	19,808	8,653	3,288	1,880	38	57	22
CCCN 25-99	101,418	29,237	23,421	7,461	80	32	26
CCCN 1-99	121,226	37,890	26,709	9,341	71	35	25
Japan							
CCCN 1-24	6,137	4,635	977	902	21	92	19
CCCN 25-99	22,877	7,987	7,510	4,083	94	54	51
CCCN 1-99	29,114	12,622	8,487	4,985	67	59	39
US**							
CCCN 1-24	21,814	9,474	3,363	1,717	35	51	18
CCCN 25-99	48,667	44,354	10,948	5,591	25	51	13
CCCN 1-99	70,481	53,828	14,311	7,308	27	51	15

* Total and dutiable imports in CCCN Chapters 1-24 and 25-99 for 1980 estimated on the basis of 1978 shares.
** Data on CCCN 1-24 and 25-99 are estimated based on 1976 proportions.

Source: UNCTAD (1984A), p. 5.

Table 3.9

Exports by GSP Largest Beneficiaries, 1980 (US$ million)

Country	All OECD	EEC	Japan	United States
South Korea	3,328	855	1,204	776
Taiwan	3,086	-	933	1,835
Hong Kong	2,455	985	119	804
Brazil	1,707	826	214	442
India	1,272	818	143	139
Singapore	1,208	391	205	301
China	1,066	432	385	-
Yugoslavia	1,041	650	17	177
Mexico	943	233	113	509
Phillipines	930	351	347	136
Share of first ten beneficiaries	66.1	59.3*	73.8	69.9**
Share of next ten beneficiaries	20.3	29.8	16.0	13.6
Share of first twenty beneficiaries	86.4	89.1	89.8	83.5

* Taiwan excluded.

** China excluded.

Source: OECD (1983)

The principle was incorporated in the so-called Framework Agreement which resulted from the Tokyo Round in exchange for legal rights concerning preferences to developing countries[62]. There was no attempt, however, to define the conditions required for its application. The result has been the adoption by the US, the EEC, and certain international organizations of graduation criteria which are either non-transparent (indeed, unknown), or arbitrary (as the famous World Bank income per capita threshold). Graduation criteria have been unilaterally applied by developed countries and not, as demanded by developing countries, as a result of multilateral negotiations[63]. Graduation has been recently an essential part of US and EEC commercial policy as product-country pairs have been withdrawn in growing numbers from GSP coverage.

It is very much open to question whether the graduation of the more competitive developing countries will make it easier for the least developed countries to effectively use their GSP tariff references. It is indeed recognized that these countries face very important supply constraints, clear, for instance, in the case of ACP exports of industrial goods under Lomé. It is their capacity to supply that must be improved and not their access to markets. The Wholesale application of the graduation

[62] See Langhammer and Sapir (1974), p. 94. But note that GSP schemes are of limited duration.

[63] For a comprehensive study of the impact of graduation on Brazil see Abreu and Fritsch (1984).

principle will, in the absence of policies stimulating the supply capacity of least developed countries, open space for an increase in the exports of developed countries.

It has been estimated that the elimination of GSP limitations would involve increases in imports of 2.5% in the EEC, 3,5% in Japan and 0.8% in the US (1980 basis, excluding textiles). If textiles were included these rates of growth would increase to 8.1% in the EEC and 4.9% in Japan. If GSP were extended to all dutiable products *and* GSP limitations were eliminated (including textiles) imports would rise by 8.3% in the EEC, 5.7% in Japan and 18.2% in the US[64].

Criticisms are also levelled specifically against EEC's GSP. It is thought to be too complex and administratively cumbersome, especially so when specific country quotas apply. Adjustments in policy related to changed market conditions are very slow (this, of course, can be either in favour or against the interests of developing countries). The lottery aspect of the distribution of exiguous quotas in a scramble each January is especially open to criticism. Administrative rules introduce considerable uncertainty in the scheme if compared to the US GSP as a result of the tariff quota System. In many cases it is impossible for an exporter to the EEC to know beforehand whether a given shipment will benefit or not from GSP while in the case of exports to the US this is generally known as competitive needs limitations when exceeded imply a loss of preferences in the following year only.

3.2. Non-tariff barriers

Non-tariff barriers have long been erected by industrial countries against agricultural imports and had already spread to trade in manufactures during the 1960s, as discussed earlier in this Report. From the mid-1970s, however, and distinctly so in the more restrictive mood prevailing in most OECD countries since 1980, the incidence of non-tariff barriers and their impact on the trade of developing countries have markedly increased.

Barriers to agricultural trade grew as industrial country governments remained free under GATT rules to protect their inefficient but politically relevant farmers in a trend which is especially worrying in the case of the EEC Common Agricultural Policy. Trade in manufactures was plagued by non-tariff restrictions, as the so-called Orderly Marketing Agreements (OMAs) and Voluntary Export Restraint (VER) arrangements, initially directed against Far-Eastern suppliers as described in Section 2, and intended at first to be short-term in application were made permanent and more comprehensive in terms of product coverage – as in the conspicuous case of textiles and clothing in successive MFAs. Reflecting the substantial post-war global reallocation of high-productivity industrial capacity towards developing countries, these measures were increasingly directed against

[64] Elaborated from UNCTAD (1983A), pp. 5 and 21.

a wider range of manufacturing exports from those countries.

The incidence of old-fashioned anti-dumping and (subsidies) countervailing duties also grew exponentially in recent years, especially in the US. This made the trade of the larger Latin American economies extremely vulnerable to the arbitrary application of these measures, since the turn taken in those countries towards more export oriented industrialization strategies during the 1960s relied to an important extent upon stimulating the growth of manufactured exports through several forms of subsidies.

A battery of instruments such as health, safety and sanitary regulations, official procurement policies and local content requirements has also increasingly been deployed by developed country governments to restrict the flow of imports on occasions in which GATT commitments prevented the use of tariffs to appease domestic protectionist lobbies.

Though non-tariff barriers are by no means restricted to manufactured products, their recent spread has affected trade in manufactures to a much larger extent. Over the past ten years, the use of non-tariff barriers against industrial imports in Western Europe and the US, has distinctly accelerated as structural adjustment problems in several industrial sectors of the mature developed market economies were made more severe by worldwide macroeconomic instability. Between 1974 and 1980 "managed" trade, that is trade subject to non-tariff Controls, increased from 36.2% to 45.8% of total trade in the US, from 35.8% to 44.8% in the EEC and from 56.1% to 59.4% in Japan. However, for trade in manufactures alone such shares rose from 5.6% to 21% in the US, 0.1% to 16.1% in the EEC and from 0.1% to 4.3% in Japan in the same period[65].

The fact that this recent protectionist turns happened at a time in which developing country industrial exports were growing steadily, made non-tariff barriers against manufactured goods an effective instrument for curbing their rapid penetration in some developed country markets. It has been estimated that in 1979 reflecting the importance of quantitative restrictions erected in OECD countries against manufactures in which developing countries have comparative advantage, the share of the latter's industrial exports to the OECD subject to these restrictions stood at 30% as compared with 11% for those of other OECD members[66].

As Table 3.10 indicates, the incidence of non-tariff measures against products of export interest to developing countries is substantial both on primary, especially agricultural, goods as well as on manufactures. The bias against developing country exports existing in developed countries' non-tariff structure of protection is, in fact, not significantly lowered by the inclusion of trade in agricultural products. A recent UNCTAD study estimates that in the first half of 1984 non-tariff measures affected 35% of developing country exports going to industrial country markets as opposed to only 21.1% in

[65] Greenaway (1983), pp. 168 and 171, quoting Page (1979) and Page (1981).
[66] Page (1981), quoted *in* Commonwealth Secretariat (1982), p. 52.

the case of intra-developed country trade[67]. Both in agriculture and in manufacturing sectors such as textiles and clothing, iron and steel, electrical machinery and footwear, non- tariff restrictions in industrial markets presently affects a substantial share of developing country trade, as shown in Table 3.11 below.

Table 3.10

Non-tariff measures applied against 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Types of NTM applied**						
0011	Bovine cattle	103648	hs	tq	I	v	i d		
0012	Sheep, lambs and goats	1194	hs	tq	I	v	Id	q	
0111	Meat of bovine animals	45959	hs	tq	I	v	Id	gq	om
0112	Heat of sheep and goats	1799073	hs	tq	I	v	Id	gq	om
0114	Poultry, killed or dressed	153058	hs	v					
0138	Other prepared or preserved meat	430013	hs	gq	I	V	Id	dl	
0311	Fish, fresh chilled or frozen	1657432	hs	tq	I	om	s r		
0313	Crustacea & molluscs, fr. chilled/froz.	1790720	hs	gq	I				
0320	Fish in airtight containers	1594379	hs	tq	I	om			
0410	Wheat unmilled	367171	hs	gq	I	v	st	Id	bq
0422	Rice, glazed or polished	98408	hs	gq	I	v	Id		
0430	Barley, unmilled	202	gq	st	v	I	Id		
0440	Maize, unmilled	1508847	hs	tq	v	I	Id		
0459	Cereals, unmilled, n. e. s.	51612	hs	v		id			
0511	Oranges, tangerines or mandarines	549486	hs	sr	gq	om			
0513	Bananas	219228	hs	sr					
0514	Apples, fresh	295450	hs	sr	om				
0517	Edible nuts, fresh/dried, inc. coconuts	667655	hs						
0520	Dried fruit	1656011	hs						
0535	Fruit and vegetable juices	513971	hs	gq	v	I	Id	om	plr
0539	Fruit & nuts, prepared or preserved	838080	hs	gq	v	I	tq	Id	
0541	Fresh potatoes	129048	hs	om	v	I	sr	Id	
0542	Beans, pens and lentils	292283	hs	gq					
0544	Fresh tomatoes	694291	hs	om	v	sr	Id		
0548	Vegetable products, roots & tubers	1022259	hs	tq	v	I	Id		
0554	Flour & flakes of potatoes	25947	hs	id	v	I			
0555	Vegetables, prepared/preserved, n. e. s.	631921	hs	gq					
0611	Raw sugar, beet & cane	91057	hs	id	v	I			
0612	Refined sugar	2895162	hs	I					
0615	Molasses	959157	hs	I	v	Id			

[67] UNCTAD (1985), Table 3, p. 12. The industrial countries considered include the US, Japan, the EBC of 10, Switzerland, Norway, Austria, Finland and Australia.

Table 3.10 (continued)

Non-tariff measures applied against 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Types of NTM applied**			
0711	Coffee, green or roasted	7568708	hs	I		
0713	Coffee extracts	400501	hs			
0721	Cocoa beans, raw or roasted	658254	hs			
0723	Cocoa butter or paste	534463				
0741	Tea	781207	hs			
0752	Spices, exc. pepper and pimento	135876	hs			
0813	Vegetable oil-seed cake & meal	1733571	hs	I	v	Id
1210	Tobacco, unmanufactured	1072673	hs	st		
2214	Soya beans	1086964	hs	gq	bq	
2433	Sawn lumber, planed/grooved, non-conifr	4507258				
2517	Sulphate wood pulp	2347974				
2621	Sheep & lambs wool, greasy	95876	mfa			
2622	Sheep & lambs wool, degreased	123878	mfa			
2631	Raw cotton	1135520	mfa			
2741	Sulphur	94353				
2769	Crude minerals n. e. s.	236621				
2813	1ron ore and concentrates	772487				
2831	Copper ore and concentrates	610015				
2832	Nickel ores	248949				
2839	Non-ferrous ores n. e. s.	2259739				
2927	Cut flowers	182495	hs	sr		
2929	Materials of vegetable origin n. e. s.	278289	hs	gq	I	s
3214	Coal	191732	gq			
3218	Coke	62744				
3310	Crude petroleum	139877206	tq	s		
3321	Motor spirits inc. gasoline	451579	tq	s		
3322	Lamp oil	991903	tq	s		
3323	Distillate fuels	11413783	tq	s		
3324	Residual fuel oils	22876183	tq	s		
3411	Natural gas	8857617	tq	s		
4212	Soya bean oil	105738	hs	v	I	Id
4216	Sunflower oil	280396	hs	v	I	Id
4221	Linseed oil	41964	hs	v	I	Id
4223	Coconut oil	1298832	hs	v	I	Id
5121	Hydrocarbons	914037	gq	s	q	
5122	Alcohols & phenols	523166	s			
5133	Inorganic acids	132284	s			
5136	Other inorganic bases	319177	s			

Table 3.10 (continued)

Non-tariff measures applied against 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Types of NTM applied**			
5417	Medicaments	606623	s	gq		
5619	Fertilizers n. e. s.	280098	s			
5713	Pyrotechnical articles	38569	s			
5812	Products of polymerization	870091	q			
6114	Leather or other bovine cattle	349163	gq			
6119	Leather n. e. s.	544792	gq			
6312	Plywood	854842	tq			
6412	Other printing paper	7846433	tq			
6513	Cotton yarn and thread	782170	tq	mfa		
6516	Yarn & thread of synthetic fibres	446234	tq	mfa	I	
6521	Cotton gauze	164761	tq	mfa	I	
6522	Cotton fabrics, woven	1175175	tq	mfa	I	
6531	Silk fabrics, woven	279073	tq	mfa	I	
6534	Jute fabrics, woven	172973	tq	mfa	I	
6535	Fabrics of synthetic fibres*	818717	tq	mfa	I	
6540	Tulle and lace	212024	tq	mfa	I	
6556	Cordage	197707	tq	mfa		
6561	Textile bags and sacks	65478	I	mfa		
6562	Made-up canvas goods	59556	I	mfa		
6569	Made-up articles of textiles n. e. s.	701420	I	mfa		
6575	Carpets	1093257	mfa			
6672	Diamonds	1822	I			
6673	Other precious stones	2308676	I			
6715	Other ferro alloys	944584	I	tq	sv	om
6727	Iron & steel coils	471292	sv	om		
6732	Iron bars & rods	228515	sv	om		
6734	Iron & steel shapes & angles	37976	sv	om		
6741	Iron & steel plates	45167	sv	om		
6743	Plates & sheets, less than 3 mm	1789310	sv	om		
6782	Seamless tubes & pipes	25257	sv			
6783	Welded tubes & pipes	716316	sv			
6821	Copper & alloys unworked	2563383				
6822	Wrought copper	322479				
6831	Unwrought nickel	384330	tq			
6841	Unwrought aluminium	1648824				
6842	Wrought aluminium	450320				
6851	Unwrought lead	793758				
6871	Unwrought tin	1915886				
6894	Tungsten & molybdenum	107298				

Table 3.10 (continued)

Non-tariff measures applied against 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan & USA ($'000)	Types of NTM applied**	
6911	Finished structural parts of iron	167270		
6931	Wire cables not insulated	1165254		
6960	Cutlery	209863		
6972	Domestic utensils of base metals	398624	bq	
7115	Internal combustion engines	2099146		
7125	Tractors	166126		
7193	Statistical machines	587686		
7151	Metal working machine tools	923946	sv	
7189	Construction machinery n. e. s.	289035		
7199	Machinery parts n. e. s.	679447		
7221	Electric power machinery	943490	I	
7222	Electrical apparatus	1125589		
7231	Insulating wire & cable	1078802		
7291	Television broadcast receivers	277957	sv	
7292	Radio broadcast receivers	316711	sv	
7299	Telecommunications equipment n. e. s.	4025510	sv	
7250	Domestic electrical equipment	940489		
7291	Batteries & accumulators	203770		
7293	Thermionic valves	3673181	sv	I
7321	Passenger motor cars	794	sv	
7322	Buses	138	sv	
7323	Lorries & trucks	1176834	sv	
7328	Bodies of motor vehicles	1308493		
7353	Ships & boats	528531	gq	
8210	Furniture	1732250	s	
8310	Travel goods	956451		
8911	Clothing of textile fabrics	8632882	mfa	
8913	Leather clothing & apparel	669553		
8920	Fur clothing	604972		
8510	Footwear	2027632	sv	gq
8691	Watches & watch movements	1348913	sv	
8911	Phonographs and sound recorders	625463	sv	
8930	Articles of artificial plastic material	1111062		
8992	Children's toys & indoor games	1801740	hs	
8999	Other sporting goods	589160	bq	
8960	Works of art & collector's pieces	729457	hs	gq
8992	Basketwork etc. of plaiting materials	414525	hs	

Source: UNCTAD (1985), Part I, Annex I, pp. 3-5.

Notes: a – Includes SITC item 6536 (fabrics or regenerated – artificial – fibers) to facilitate concordance with tariff classifications;

b – Restrictions applied in whole or part to the SITC group. The key to symbols applied is as follows:

PHS, HS = prohibitions due to health and sanitary reasons or health and sanitary regulations;
Q = quotas (method unspecified) or bilateral quotas;
TQ = tariff quotas;
CQ = global quotas;
OM = other price distorting measures;
SV = surveillance;

S = standards;
ID = Import deposits;
MFA = Multi-fibre Arrangement;
SR = seasonal restrictions;
BQ = bilateral quota;
DL, L = Import licensing (method unspecified);
V, MP = variable levy or minimum import price restriction;
R = restrictions (method unspecified) or special seasonal restrictions;
PLR = special inbelling requirements;
ST = State trading.

Table 3.11

Import coverage of Selected non-tariff barriers applied against imports from developing countries in selected product sectors by major industrial countries

Product Group	Percentage share of imports from developing countries
Agricultural products	38.6
Textiles and clothing	51.0
Iron and Steel	39.0
Electrical machinery	14.1
Footware	8.0

Source: UNCTAD (1985), Table 4, p. 12. Industrial countries considered include the US, Japan, the EEC (10), Norway, Switzerland, Austria, Finland and Australia.

3.2.1. Primary products

The bulk of non-tariff barriers levied by developed countries against primary products since the mid-1970s continue to fall upon agricultural commodities and, especially, "competing", mostly temperate, foodstuffs such as grains, meat and dairy products. They continue to be, to a large extent, as discussed in Section 2, a by-product of industrial country agricultural policies, usually aimed at protecting their agricultural producers against price and income fluctuations, but also influenced by strategic considerations as to self-sufficiency in food production. These measures, as applied by the major industrial countries are discussed below, with special emphasis on the EEC's Common Agricultural Policy.

In relation to raw materials – including most agricultural materials – as well as tropical foodstuffs the position gives less cause for concern.

Raw materials for industrial processing are usually not affected by any form of non-tariff protection in the lower stages of fabrication. Tropical products also, as non-competing items, are not the object of domestic protectionist pressures. Nevertheless, not only some of these products are subject to exceedingly high specific revenue taxes – especially in some European countries and in Japan, as discussed below – as international trade in those products is distorted by EEC tariff preferences granted under the Lomé and ACP agreements, as seen above. These practices can be

particularly damaging to SELA member countries, the more so as some of those countries display an extreme export dependence on such products.

3.2.1.1. The Common Agricultural Policy of the EEC

Article 39 of the Treaty Rome defined the objectives of the agricultural policy to be adopted by the EEC as follows: to increase agricultural productivity, to ensure a fair standard of living for farmers, to stabilize agricultural markets, to provide certainty of supplies and to ensure supplies to consumers at reasonable prices. The Common Agricultural Policy has undoubtedly been a success when its results are confronted with these objectives with the obvious exception of the "reasonable" price target. The costs and benefits that such a policy was likely to generate in the rest of the world was a concern of very minor importance to EEC's decision-makers. Judging from recent developments, indeed, it would seem that the protection of farmer's incomes became the overriding objective of CAP with little concern over costs either to consumers or alternative suppliers[68]. This situation tends to perpetuate itself since "once agricultural protection gathers momentum in a developed country, there are powerful forces working for its continuance and enhancement"[69].

The objective of self-sufficiency has continued to be relentlessly persecuted in the 1970's. In the last twenty years EEC's agricultural output increased 3% a year, well above consumption; as a result, agricultural exports increased by 6% a year. So trends which could be vaguely detected in the 1960's, became very pronounced in the 1970's and alarmingly so in the 1980's. Self-sufficiency targets were exceeded in many cases (see Table 3.12) providing the justification for the systematic adoption of export promotion by means of subsidies. Traditional suppliers in developing countries were thus, as already mentioned in Section 2, dislocated both in the EEC market – by import substitution – and in third markets – by subsidized exports.

This is particularly serious as the EEC is the major market for agricultural exports from developing countries accounting for almost 30% of their agricultural exports in the early 1980's and double the value of agricultural imports by the US, the next largest importer of developing country agricultural products. The share of Latin American and Caribbean countries' agricultural exports absorbed by the EEC is slightly lower but still above 25%[70].

[68] Pearce (1981), p. 61
[69] Commonwealth Secretariat (1982), p. 42.
[70] UNCTAD (1983), Annex.

Table 3.12

EEC's "Self-Sufficiency" in Agricultural Products (%)*

Product	1967-71	1978	1982-83
Sugar	82	125	159
Butter	91	118	114
Milk fat	100	112	119
Barley	103	112	112
Rye	100	108	98
Wine	97	107	104
Poultry	101	103	111
Soft wheat	-	102	121
Beef	90	95	105

* Quantities disposed of by the aid of subsidies included in internal consumption.

Source: Koester and Bale (1984), p. 9, quoting the Statistical Office of the European Communities.

The EEC is the second world exporter of agricultural products – its share of the market increasing from 9.5% in 1970 to 12% in 1980. The increased importance of the EEC as an agricultural exporter has especially, but not exclusively, affected temperate agricultural products (see Table 3.13). Sugar perhaps illustrates better than any other product the distortions provoked by the CAP, whose effects in this case are considerably aggravated by EEC's preferences under the Lomé agreements. Some ACP countries export sugar to the EEC at the much higher Community prices which compensate these countries for the depressive consequences of EEC's sugar policy on world prices. This happens in spite of the fact that the EEC already produces more sugar than it consumes these ACP imports have to be re-exported at lower world prices in addition to EEC's surpluses.

Increased agricultural output depends crucially on the variable levels raised on imports to increase their price to EEC levels and on the payment of subsidies to make agricultural exports competitive in the world markets. EEC agricultural prices after the early 1970's tended to increase very significantly in relation to world prices stressing the growing inefficiency of CAP (see Table 3.14).

These policies can only be maintained at a very high cost: about 16 billion European units of account (EUA) will be spent in 1985 to maintain the CAP. This corresponds to about two thirds of the total EEC expenditure. Only a very limited share of CAP resources will be spent on structural improvement measures, the rest will go to price support programmes of various kinds.

Table 3.13

EEC's Shares in World Agricultural Exports* (%)

Product	1971-72	1982-83	EEC's Position as World Exporter
Wheat	8.1	17.1	3rd
Wheat flour	47.6	67.5	1st
Total grains	7.8**	8.6****	3rd
Beef and veal	2.6	13.9	2nd
Butter	31.1	46.8	1st
Non-fat dairy	22.9	50.3	1st
Cheese	28.1	44.5	1st
Broilers	36.6	39.3	1st
Shell eggs	20.0***	52.4	1st
Sugar	6.2	18.5	2nd

* Quantity shares, excluding intra-EBC trade.
** 1973-74.
*** 1979-80.
**** 1981-82.
Source: Sanderson (1983), quoted by Koester and Bale (1984), p. 5.

Table 3.14

Ratio of EEC Prices to World Market Prices*

Product	1974-75	1976-77	1978-79
Soft wheat	107	204	193
Rice	81	166	157
Maize	106	163	201
Barley	107	147	225
Sugar	41	167	276
Pig meat	109	125	155
Beef	162	192	199
Butter	316	401	403
Skimmed milk powder	139	571	458
Total**	(139)	(208)	(229)

* Multiplied by 100.
** Weighted average of included products. Ratios distorted by the fact that world prices are influenced by EEC prices.

Source: Davenport (1982), p. 237.

There are many alternative computations of welfare costs entailed by CAP – that is the sum of producers' gains, consumers' losses and budgetary contributions.

A recent estimate suggests that in 1980 CAP's net welfare costs were of the order of US$14 billion (producers' gains of US$29 billion, consumers' losses of US$32 billion and taxpayers'

contribution of US$11 billion)[71]. Abandonment of CAP would have a favourable impact on world prices of many exports of interest for developing countries such as sugar, beef and grains[72]. Not all developing countries would benefit as importers of products affected by agricultural policies would face a higher import bill without a compensating beneficial impact on its exports proceeds. These countries would have to be compensated depending on their level of development and on the impact of such changes on their balance of payments position.

The political strength of farmers in the EEC is certainly larger than their share of GDP or of total labour force could explain (see Table 3.15). In spite of its size being maintained artificially by CAP, EEC's agriculture has been contracting in relative terms both of its share of GDP and of employment. Even for relatively laggard countries such as Italy these shares are rapidly approaching "mature" levels. The political sensitiveness of agricultural themes is, however, maintained by the selective importance of farm vote, by a diffuse and slightly irrational sentiment in the EEC that supply of food is too important to be left to the vagaries of international trade and, perhaps more important, by the very important disparities in the level of income of farmers in the EEC as a whole. The average Dutch farmer's income is still about four times the average Italian farmer's income. The better-off farmers are very keen in maintaining their privileged position, whereas the poorer farmers want to improve their relative position. The enlargement of the EEC, of course, tends to reinforce such trends as the average income of Greek, Portuguese and Spanish farmers is even lower than that of their Italian counterparts.

Table 3.15

Agriculture's Share in Employment and GDP in Major European Economics, 1955-81 (%)

	Year	France	W. Germany	Italy	UK
Labour Force	1955	25.9	18.9	39.5	4.9
	1970	12.7	5.6	13.1	2.1
	1975	10.9	7.1	15.5	1.8
	1981	8.4	5.9	13.0	1.6
GDP	1955	12.3	8.5	21.6	4.7
	1970	6.6	3.3	9.8	2.9
	1975	5.6	2.9	8.7	2.7
	1981	3.8	2.2	6.7	2.3

Sources: El Agraa (1980) and United Kingdom (1963-84).

There is no built-in mechanism in EEC's farming arrangements to prevent the continuous

[71] Buckwell *et al*. (1982), p. 168. These are the costs of CAP compared with the alternative of its total dismantling. Buckwell *et al*. (1982) presents a very useful survey of work on CAP costs in Chapter 4.

[72] Cline *et al*. (1978), p. 219 suggests that the bulk of the gains of developing countries from a cut of 60% in the tariff-equivalent of agricultural non-tariff barriers would mainly benefit Argentina (more than 40% of total gains).

accumulation of surpluses after self-sufficiency is reached. The last radical attempt to deal seriously with the spiralling costs of CAP was the Mansholt Plan of 1968 which placed emphasis on structural adjustment rather than on price support. It was watered down by the EEC's Council of Ministers and, in fact, became irrelevant as the share of restructuring schemes' expenditure in the European Agricultural Guidance and Guarantee Fund (EAGGF) remained firmly below 5%.

Recent decisions on guaranteed prices suggest, however, that the more extreme distortions brought about by CAP are under severe internal criticism and are unlikely to increase in the future.

3.2.1.2. Agricultural protectionism in Japan

Japanese agricultural policy has also traditionally been protectionist and continued to be fiercely so in the 1970's and early 1980's, especially affecting rice, beef, wheat, and dairy products. By the end of the 1970's Japanese wheat producer prices were more than 6 times Canada's, rice prices were more than 16 times Burma's, cattle prices almost 8 times, and dairy prices more than 6 times New Zealand's. Moreover, as mentioned in Section 2, the trend has been markedly towards increased protection.

On a much smaller scale, Japan's influence on the rice market is similar to the EEC's in the sugar, wheat and beef markets. Farmers' political pressure generates policies which foster not only self-sufficiency but surpluses which are dumped in the world market and depress prices, consequently hurting traditional developing exporters. In the absence of protection, Japanese rice production would fall about 80% and consumption increase by more than 6%[73]. Beef consumption, similarly, in a free market would increase by 30%[74]. Extra costs for consumers of rice in 1978 were estimated at no less than US$ 10.5 billion[75].

3.2.1.3. Non-tariff restrictions against agriculture in the US

Agricultural non-tariff barriers in the US over the past decade tended to concentrate, with variable importance over time, upon meat, sugar and dairy products, and seem to have implied much lower distortions than similar measures in the EEC and even in Japan[76].

Protection of meat and sugar varied cyclically since the first oil shock. Prior to 1974 both meat and sugar imports were regulated by quotas, the former being the object of special legislation amending the 1930 Tariff Act – the Meat Import Act of 1964 – authorizing the establishment of VER

[73] Commonwealth Secretariat (1982), p. 37.
[74] Lutz and Bale (1980), p. 338.
[75] Commonwealth Secretariat (1982), p. 85.
[76] For a comparative quantitative assessment see Cline *et alii* (1978), Chapters 4 and 5.

arrangements under the threat of unilateral imposition of quotas, which were effectively negotiated in 1968[77]. However, due to widespread concern over accelerating inflation led by booming primary product prices in the early 1970s, US quotas on both meat and sugar were abolished by 1975.

A few years later there was another turn towards higher protection. In 1979 meat import quotas were formally reintroduced according to a counter-cyclical formula, but made redundant by VERs negotiated with major suppliers. Sugar protection, which remerged in 1977 through the imposition of a variable tariff, took a decisive upturn in 1982 when, owing to the world price slump, quotas were reintroduced as part of a comprehensive price support programme which is to last until the end of 1985.

This US government decision to protect domestic sugar prices can have serious consequences for the future stability of the world sugar market as well as to the welfare of a number of SELA member countries. The US is the largest sugar importer among industrial countries and, to the extent that higher internal prices reduces the gap between domestic production and consumption it can affect the many Central American and Caribbean countries which depends heavily on sugar sales to the US.

Dairy products also remain highly protected in the US not only by quotas but through an increasing volume of subsidies. Milk subsidies alone more than doubled in the second half of the 1970s, reaching over 8 billion dollars a year by the beginning of the present decade. The effect of these restrictions upon Latin American and Caribbean countries, however, appears to be small.

3.2.1.4. Other non-tariff obstacles to trade in Primary and Processed Products

Exports of primary and processed products by developing countries into the EEC are unfavourably affected by other obstacles to trade besides the levies imposed under CAP. Processed products are more likely to be affected than primary products.

Other non-tariff barriers include: quantitative import restrictions – that is either quotas or "voluntary" export restrictions – customs valuation procedures, public procurement policy and quality and packaging regulations.

As quotas run too obviously against GATT rules, increasing use is being made recently of the bilaterally agreed "voluntary" export restraints which make the exporting country responsible for the curtailment of supply. This *de facto* breach of GATT rules is more common in the case of manufactured products as will be seen below in 3.2.2.1. But VERs are also applied to primary and processed products. So, the American, Canadian and Japanese markets of beef, veal and other meats are protected by VERs and quotas; sisal as well as cassava imports are similarly limited in the EEC.

[77] Meat imports are also a classical victim of health and sanitary restrictions. As recently as the end of 1983 seven Latin American countries had their meat exports to the US embargoed by sanitary regulations.

Imports of cassava into the EEC increased very significantly in the early 1980's as it was a relatively cheap substitute of other feedstuffs whose prices were affected by CAP. The surge in cassava imports was interrupted by the imposition of VERs due to EEC pressure in spite of the fact that there is no EEC competitive production[78].

Customs valuation procedures can constitute an important obstacle to trade as their manipulation can increase uncertainty concerning the profitability of export activities and consequently protect domestic competitive production. Similarly, public procurement policies in some cases openly discriminate against foreign goods while in others *de facto* discrimination exists but it is not part of explicit policy. Health and packaging regulations, while being in many cases legitimate, provide basis for the disguised protection of domestic products by effectively blocking imports or increasing costs in such a way as to make domestic products artificially competitive. Available evidence on health and sanitary regulations based on the proportion of trade (actually taking place) which is affected by regulations is of limited usefulness as it does not take account of trade which simply does not take place at all because of the regulations. These forms of non-tariff protection are all very difficult to counter among other things because it is almost impossible to have a comprehensive picture of the actual discriminatory policies being adopted.

3.2.1. Manufactured goods

The bulk of non-tariff barriers raised against manufactured goods in recent years falls mainly into two broad categories: quantitative restrictions, taken as "safeguard" measures against disruptive imports, and anti-dumping and (subsidy) countervailing duties, the high incidence of the latter being a distinctive characteristic of US new protectionism as compared with Western European practices[79].

3.2.2.1. Quantitative restrictions

The growth of quantitative restrictions over the past ten years - both in the form of OMAs and, increasingly, bilaterally negotiated VERs – has taken place in two identifiable waves. The first, from the mid-1970s, partly as a delayed reaction to the downturn in world economic activity following the first oil shock, partly as a result of exchange rate misalignments. The second, in the early 1980s, as a reaction to the recession and the substantial increase in unemployment rates in industrial countries and, in the US, as a result of dollar overvaluation which eroded the competitiveness of US industry[80].

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[78] Koester and Bale (1984), p. 28.
[79] Between 1979 and 1982, 143 countervailing duty cases were initiated in the US against only 4 in the EBC. See UNCTAD (1984B), Table 2, p. 5.
[80] Cline (1983).

In the case of the US the spread of these restrictions was also helped to a considerable extent by changes introduced in American legislation by the Trade Act of 1974 and the 1979 Trade Agreements Law – which were not altered by the 1984 Trade Act – greatly easing the procedures for safeguard action petitions under the so-called "Escape Clause"[81].

During the second half of the 1970s the US ITC has found grounds for relief in Steel (1975), leather footwear (1976), colour TV sets (1977) and OMAs and VERs imposed accordingly. Even when the ITC could find no ground for complaint – as in the case of Japanese automobiles filed in 1980 – the US government informally negotiated 3-year quotas with Japan. In Europe, sectors affected by quantitative restrictions in the 1970s include footwear, electronic goods, motorcycles, aluminium, cycle tires, ferro-alloys and paper products[82]. The Japanese market was probably less restricted than other developed country markets[83].

The fall in the level of economic activity in the early 1980's, with the consequent increase in the level of unemployment provided ideal ground for further flourishing of quantitative restrictions in developed countries. Changed economic conditions had an important impact in reversing previously optimistic assessments of the likely rate of expansion of developing countries' exports based on the growth of markets and in their relatively low penetration of developed markets[84]. Indeed, penetration of developed markets by developing countries was still rather modest by the late 1970's, varying in the EEC between 2.3% in Italy and 2.46% in Germany and reaching 2.5 % in Japan, 2.28% in the US and very limited in comparison with penetration by imports from developed countries even in the case of the so-called "sensitive" products (see Table 3.16)[85]. However, although quantitative restrictions were usually motivated by rapid import penetration from larger and old-established exporters, they have affected SELA member countries either directly – as in the case of OMAs affecting Steel and footwear – or indirectly, as the dynamic Latin American exporters had to face markets already regulated by safeguards, as the case of textiles illustrates.

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[81] Under the Escape Clause an interested party may file a petition for relief against disruptive imports, to be considered by the US International Trade Commission. If grounds for relief are found to exist by the ITC, the President of the US may grant it. A presidential decision not to grant relief may, however, be overridden by majority vote in Congress. For a detailed review of the procedural aspects of US trade legislation see SELA (1984), pp. 192-214. For changes introduced by the 1984 Trade Act, see SELA (1985), pp. 55 ff.

[82] For a list of EEC safeguard measures taken in the 1970s see Gard and Riedel (1980).

[83] See Saxonhouse (1983) and Cline (1984), pp. 56-59.

[84] See, for instance, Hughes and Waelbroeck (1981), p. 144.

[85] Cline (1984), p. 14. Data for 1970 and 1980 for selected products can be found in UNCTAD (1985), p. 32. Penetration ratios in the EEC as a whole in 1980 were of 2.27% for a selection of 124 "core products": 4.18% in textiles, 11.97% in clothing, 1.3% in wood and paper products, 1.38% in chemicals, 3.32% in metals, 0.77% in transport equipment, 1.41% in machinery and 1.94% for food, beverages and tobacco. UNCTAD (1985), p. 47.

Table 3.16

Import Penetration Ratios by Developing Countries and all Countries in Selected Developed Countries, 1978

	West Germany		France		Italy		U.K.		Japan		United States	
	Developing Countries	Total	Developing Countries	Total	Developing Countries	Total	Developing Countries	Total	Developing Countries	Total	Developing Countries	Total
Food products	3.8	20.0	4.4	16.4	4.2	28.7	4.6	21.7	5.0	12.0	2.3	5.3
Food products, diverse	3.4	14.6	1.4	7.8	1.0	12.0	4.0	14.0	1.6	3.2	2.0	3.0
Beverages	0.2	8.1	0.9	10.1	0	9.1	0.2	4.9	0.1	2.3	0.2	7.7
Tobacco	3.4	11.2	2.3	8.1	1.3	26.2	10.4	31.6	0.8	4.3	3.9	5.7
Textiles	7.7	34.3	4.4	26.1	7.7	25.1	5.6	24.3	5.2	8.6	2.3	5.1
Apparel	13.9	48.6	0	0	7.2	34.5	15.2	31.9	7.8	10.4	12.5	15.3
Leather (excluding footwear)	8.5	39.2	5.2	22.9	15.0	29.7	9.4	22.5	7.1	11.3	10.3	14.3
Footwear	2.4	37.6	0	0	0.5	1.9	4.9	22.4	5.8	7.4	14.0	29.3
Wood products	1.9	17.7	1.7	14.5	8.6	14.2	5.4	29.4	1.3	5.2	2.6	11.5
Furniture	0.0	0	0	0	0.9	15.3	0.7	13.8	1.4	2.5	2.3	6.8
Paper	0.3	23.1	0.3	20.4	0.2	19.2	0.2	24.5	0.1	3.0	0.1	6.8
Printing	0.9	13.4	0.3	13.2	0.6	8.3	0.9	7.6	0.2	1.2	0.8	2.0
Industrial Chemicals	0.4	17.2	1.1	38.e	0.9	23.9	1.1	22.3	0.8	6.6	1.2	8.4
Other Chemical products	0.0	0.0	0.7	15.5	0.0	0	0.7	15.3	0.7	5.5	0.5	3.2
Petroleum refineries	2.1	28.5	1.0	10.2	7.6	26.9	2.2	19.2	13.1	15.0	6.1	9.7
Petroleum and coal products	0.0	0	0	0	0	0	0.6	6.6	0.2	0.8	0.1	1.5
Rubber products	0.7	23.2	1.0	32.2	0.8	17.3	1.2	14.4	0.7	2.3	3.2	11.4
Plastic products	1.1	29.5	0	0	1.4	43.7	2.3	33.8	0.5	2.4	4.2	9.2
Pottery, China and eartherware	2.3	41.2	0.4	12.6	0.5	12.4	1.6	12.0	0.4	1.8	6.1	34.1
Glass products	0.5	23.8	0.2	24.4	0	0	0.3	22.3	0.3	2.1	0.8	7.1
Otlier non-metallic minerals	0.5	13.2	0	0	0	0	0.4	7.3	0.7	1.9 !	0.8	3.9
Iron and steel	0.4	21.0	0.6	32.6	0.4	16.1	0.4	16.1	0.3	0.9	1.2	11.7
Non ferrous metals	6.1	33.2	5.6	29.4	14.4	58.9	5.3	32.6	5.6	12.8	4.0	12.5
Fabricated metal products	0.5	14.1	0.2	14.3	0.4	16.0	0.5	9.5	0.1	1.1	1.0	4.0
Machinery (non electrical)	0.3	18.9	0.5	41.2	0.5	37.2	0.4	26.4	0.2	3.2	0.6	7.3
Electrical machinery and equipment	1.1	13.6	0.8	16.8	1.2	18.8	1.4	16.6	0.5	1.9	4.1	10.5
Transport equipment	0.6	22.7	0.2	19.7	0.6	26.7	2.9	32.8	0.1	2.6	0.3	12.6
Technical instruments	3.6	51.3	0	0	0.9	37.6	4.4	45.8	1.4	12.8	2.0	11.5
Manufactures not elsewhere classified	12.8	61.2	0	0	9.9	53.7	4.6	n.a.	6.8	11.9	9.3	23.0

Source: Cline (1984), pp. 152-155.

3.2.2.1.1. Quantitative restrictions affecting textiles and clothing

As shown in Section 2, trade in cotton textiles was regulated from the early 1960's by International arrangements which constituted an important breach of GATT principles but with GATT's tacit agreement. Since the early 1970's the textile arrangements have been renewed as Multifibre Agreements covering all textiles and clothing of cotton, wool and man-made fibres, first in 1974, then in 1978 and 1983.

The first protectionist waves of the 1970s affected the level of quantitative obstacles already in existence and created new ones. The second MFA provided for rates of growth of developing countries' export quotas much lower than the first MFA, based on the so-called "jointly agreed reasonable departures" from MFA. Administration of the MFA in the EEC meant the administration of about 3,000 country-product quotas. This and an elaborate system regulating the imposition of new quotas on excessively "dynamic" products – the so-called basket extractor system – turned the MFA into a very difficult arrangement to manage[86]. It is sometimes difficult to remember that the initial justification to have the MFA at all was to have order and equity in the textile market. Observers have called attention to the fact that an exactly opposite position has been reached as the MFA basic results are a disorderly market – i.e. a market where price competition is denied by the agreement – and an inequitable situation as developing countries' quotas are to grow only very slowly[87].

The new wave of protectionism did not affect textiles significantly as there was little room left for aggravating protection in developed markets. While the third MFA which started in 1981 and is to last until 1986 did not include provisions for "reasonable departures" as in MFA II, an "antisurge" procedure was introduced to deal with surges of imports of products with previously underutilized quotas. Quotas continued to increase very slowly in the EEC and Controls were tightened in the US by the end of 1983. "Outward processing" was regulated, that is, facilities were created to foster this trade whereby developing countries specialize in less complex finishing operations of final products whose production process starts in developed countries and which are sold in these markets[88]. While Latin American and Caribbean countries are not among the major exporters of textiles and clothing under the present arrangements it is supposed that they could become significant if the present distribution of quotas is superseded by a liberalization of these markets.

[86] Silberson (1984), Ch. 1.

[87] Curzon (1981). Curzon also criticizes EEC's allegations that the need to stabilize imports from most competitive suppliers is related to their intention to protect least developed suppliers from most competitive segments of the textile and clothing industry in the EEC which profit most from such arrangement.

[88] Silberston (1984), Ch. 1. Curzon (1981) draws attention to the contrasts between the EEC's liberal policy on "outward processing" and its quite tough stance on finished products' imports.

3.2.2.1.2. Quantitative restrictions affecting Steel

Steel emerged as perhaps the most important new industrial sector to depend crucially on the imposition of "voluntary" restraints by exporters to survive both in the EEC and in the US[89]. The US in fact opened the way for the Wholesale adoption of restrictions on the trade of Steel products forcing VERs on Japan and the EEC in the late 1960s and in the early 1970s. The EEC, on the other hand, imposed VERs on Japan also in the early 1970s. These were tightened after 1975. The EEC steel industry faced a large increase in the level of idle capacity due to the impact of the recession on steel consumption and to the very considerable expansion in capacity which resulted from massive investments undertaken as from 1968 and the political difficulties related to the closing down of old plants[90].

The imposition of VERs in the US had only aggravated the industry's lack of competitiveness by insulating it from international competition: hourly earnings continued to increase much above output per man. By 1977 the US steel industry was facing a new onslaught by imports from EEC and Japan which resulted in an increase in import penetration and in the eventual introduction of the so-called Trigger Price Mechanism (TPM) which established "fair" prices on the basis of Japanese data below which imports would be subjected to anti-dumping investigations. This opened the way for the institution of a similar scheme in the EEC, the "basic price system". The menace of the imposition of anti-dumping duties by the EEC made possible the extraction of VERs from exporters. At the same time the Davignon Plan provided important financial help for the re-structuring of the EEC steel industry, a policy with obvious consequences on the competitive capacity of domestic industry in relation to imports.

With the new trend towards greater protectionism gathering momentum in the early 1980s, the imposition of VERs became the rule in Steel markets in developed countries. In the EEC it was justified by the Davignon structural readjustment plan and bilateral agreements were renewed between 1981 and 1984 reducing import levels 12.5% below the 1980 level. In the US, after many wrangles between the steel sector and the government, exporters ended up by accepting "voluntary" quotas below their immediately previous shares of the US market.

3.2.2.1. Anti-dumping and Countervailing Duties

Besides unilaterally imposed quantitative restrictions, developing countries' exports have been increasingly facing the imposition of anti-dumping and countervailing duties by developed countries

[89] On steel see Jones (1983) and Walter (1983).
[90] See Nowzad (1978).

in the recent past. These duties constitute the most important non-tariff barrier which affects the prices – as opposed to the quantities – of imports and are naturally in some cases illegitimately used to deter imports[91].

3.2.2.2.1. The application of Anti-dumping and Countervailing Duties in the US and the EEC

Although subsidy and anti-dumping countervailing duties are ancient pieces of US trade legislation they have proved to be the main irritant in US-Latin America relations since their application was given a new impetus with the passage of the 1974 Trade Act. During the life of the Act, which extended to 1979, at least 119 anti-dumping and 111 subsidy countervailing duty cases were filed[92]. Effective application of these duties by the US government rose from 16 in 1971-74 to 62 between 1975 and September 1978[93].

Until 1979, however, effective application of these measures against Latin American countries were much concentrated on the subsidy countervailing duty. The cases of effective application of the anti-dumping law – which allows the imposition of surcharges on products considered to be selling at prices lower than those charged in the producer[1]s home market – against SELA members prior to 1979 predate the first oil shock[94].

Indeed, 1974 marks a turning point in the application of subsidies as countervailing duties by the US[95]. Until then the administration of the duty on foreign export bounties by American government agencies was done in such a way as to prevent its application against developing countries[96]. This posture was maintained even though complaints in the US had been growing for some time against LDC subsidies on industrial products, which were part and parcel of the "opening up" strategy then followed by the more industrialized countries in the region. In 1974, however, this tradition was abandoned when the Treasury ordered the removal of the subsidies granted by Brazil and Argentina on their show exports following complaints from US producers, even though these Latin American exports were a tiny fraction of the market. Brazil refused to comply and was imposed a 5% duty.

This case marked the beginning of an explosive growth in the effective application of subsidy countervailing duties on products exported by developing countries during the rest of the 1970s. Practically all products affected were manufactures. Latin American products penalized include other

[91] In fact, available evidence suggests that investigations on dumping and subsidies produce a contraction in imports from the affected country irrespective of their findings.
[92] Finger (1981), p. 265.
[93] OEA (1978), p. 2.
[94] These were the charges against Mexican sulphur (1971), Brazilian and Argentine printed vinyl film (1972), and Mexican picker sticks (1973), cf. Odell (1980), Table 2, p. 213.
[95] Fritsch (1983), p. 16.
[96] Odell (forthcoming).

leather goods, textiles and clothing, iron and Steel items, tiles, scissors, cut flowers and castor oil.

The impact of anti-dumping and countervailing duties in the second half of the 1970s upon different Latin American countries depend basically on the commodity structure of their trade with the US and the sector incidence of the duties. Thus, although only 0.4% of all manufactured exports from Latin America were affected by these duties between 1975 and 1979, Uruguay had not less than 32% of its exports to the US subject to them[97].

The codes negotiated at the Tokyo Round had some positive effect, particularly as the Subsidies and Countervailing

Duties Code had the effect of submitting US government imposition of these duties to the results of a prior injury test. However, with the renewed deterioration of the world trade situation in the early 1980s, the trend towards greater application of these measures against Latin America seem to be again on the rise, as Tables 3.17 and 3.18 show.

EEC policy on anti-dumping and countervailing duties, on the other hand, has tended recently to favour agreements with exporting countries which result in the imposition of offsetting export taxes or VERs rather than of countervailing duties as seems to be preferred by the US.

3.2.2.2.2. The use of Anti-dumping and Countervailing Duties as protectionist devices

Many criticisms have been levelled against the improper use or existing inherent distortions in the rules presently guiding the application of such duties. It is claimed that the present Subsidies Code allows the imposition of duties when dumping or subsidies are only one among other factors adversely affecting competitive domestic production and not the most important cause as required previously by the Kennedy Round Subsidies Code. It is also argued that the increasing complexity of dumping and countervailing duties investigations unfavourably affects exporting firms – especially those from developing countries – which are less informed about the relevant legislation than domestic firms and so are handicapped in the defence of their legal rights. The costs of such investigations also discriminates against smaller firms.

[97] Finger (1981), p. 289.

Table 3.17

Countervailing duties cases involving Latin American Countries: 1981-1984 (Final decisions)*

Country	Terminated or Suspended	Negative	Affirmative (CVD applied)	Pending**
Latin America:				
Mexico	5	1***	12	5
Brazil	8	4	6	5
Argentina	1	-	2	2
Peru	1	-	2	1
Uruguay	-	-	1	-
Colombia	1	-	-	-
Panama	1	-	-	-
Costa Rica	-	-	-	1
Total	16	5	23	14
Other LDCs	8	-	4	12

* Table does not include petitions that were filled with the DOC but not taken beyond the initial investigative phase.
** As of November 1, 1984.
*** The negative finding was made by the DOC; Mexico receives no injury test from the ITC.

Source: SELA (1985), Table IX, p. 90.

Table 3.18

Antidumping Cases Involving Latin American Countries, 1981-1984

Country	Terminated or Suspended	Negative	Affirmative (AD applied)	Pending**
Latin America:				
Brazil	-	2	3	3
Chile	-	-	2	-
Mexico	-	-	1	1
Trinidad & Tobago	-	-	1	-
Colombia	1	1	-	-
Venezuela	1	-	-	-
Argentina	-	-	-	3
Total	2	3	7	7
Other LDCs	7	4	14	6

* Table does not include petitions that were filed with the DOC but not taken beyond the initial investigative phase.
** As of November 1, 1984.

Source: SELA (1985), Table VIII, p. 89.

The major specific problems entailed by the application of dumping and subsidies legislation in developed countries, however, relate to the determination of "fair" price. These problems refer to both the process of determination of such prices and to the justification for either lower prices of imported goods or for the existence of subsidies. Anti-dumping investigations, both in the EEC and the US, compute anti-dumping duties by adjusting import prices to make them comparable to prices ruling in the domestic market of the exporting country. The assumptions behind such computations are bound to be, in many cases, open to debate. Similarly, the criteria for establishing the level of subsidies are subjective and also bound to generate feelings that its unilateral characteristics can tend to favour domestic interests.

Anti-dumping investigations being based on the comparison between export prices and domestic prices in the exporting country do not take into account the fact that in many developing countries and for many products the domestic markets are too small so that economies of scale cannot be normally fully exploited. How should pricing policies "legally" take into account such distortions?

Subsidies investigations face similar difficulties. Many of the subsidies in developing countries which benefit exports are related to the attempt to counter the lack of external economies which certainly exist in the developed countries. Moreover, developing countries are in a clear disadvantage in relation to developed countries due to sharp differences in the specific forms of indirect taxation. Exemption from value added taxation is legal and straightforward under the Subsidies Code while for other forms of indirect taxation it is harder to show the exact incidence of indirect taxation on exported products in a cascade-type indirect taxation system. Administration of VAT Systems requires much more administrative sophistication than that of cascade-type indirect tax and is not always convenient for developed countries. Differences in tax structure consequently entail clear disadvantages for developing countries.

Due to other economic policy objectives generally associated with the balance of payments, it has been very common for developing countries to maintain their exchange rates relatively over-valued, making their exports relatively expensive. This has been in fact the case for big debtor countries in Latin America especially in the period prior to 1982. Tax rebates which maintained the competitiveness of exports have been considered as pure subsidies by developed countries importing goods from such developing countries. In fact, the whole anti-dumping and countervailing duties legislation framework has been shown to be vulnerable to criticisms once exchange rates started to present a very unstable behaviour since the turn of the decade.

The recent stand of developed countries, especially of the US, in the operation of countervailing duties system has been criticized in relation to other points. The US has been denying the application of the MFN clause to countries which are not signatories of the new Subsidies Code: this means that the US is initiating investigations without applying the injury test as required by GATT rules. Treatment of different developing countries has been heterogeneous. Brazil, which signed early the new Code, agreed to phase out an extensive range of subsidies while countries which signed later entered into much less specific commitments.

3.2.2.3. Other Non-tariff Obstacles to Trade in Manufactured Products

As already mentioned above there is a marked lack of comprehensive information on non-tariff barriers such as customs valuation procedures, public procurement policies, health, sanitary and packaging regulations as well as safety and technical specifications. This makes it very difficult to

counter their misuse as instruments to protect domestic industry.

Manufactured products are probably more affected by safety and technical specifications and by public procurement policies. The limited data which exist do not discriminate between health, safety and other technical standards. This aggregate data shows that no less than 48.5% of Japan's imports from developed countries and 17% of those from developing countries were subjected to these standard regulations in the first half of 1984.

State procurement's distortions were quite relevant in the 1950's and 1960's in diverting orders to domestic suppliers, especially so in France, the UK and the US. There is no comprehensive up to date evidence but it is thought that these distortions are much more important today than they-were in the past. Recent EEC action against discriminatory behaviour on the part of member states shows that in spite of all previous legislation discrimination still existed *within* the EEC[98].

3.3. GATT rules and the evolution of the world trade regime since the first oil shock

Apart from the introduction of the several GSPs during the 1970s, the most important changes in the legal framework governing multilateral relations since the first oil shock were those stemming from the Tokyo Round. Besides providing an opportunity for a further trimming of tariffs, the Round was especially marked by concern with strengthening GATT's jurisdictional competence over a much wider area than before. For the first time in the history of MTNs a special effort was made to bring non-tariff barriers under GATT discipline[99].

This innovation was undoubtedly partially motivated by a genuine concern among free-traders with the steady growth of non-tariff barriers since the 1960s and their increasing importance as instruments of protection in the 1970s. However, a fundamental element in the design of the Tokyo Round's agenda was, as in those of the former MTNs, a change in US policy towards the GATT. As trade competitiveness of the relatively freer US economy fell progressively in the 1960s, while Japan and Europe rose to challenge its economic hegemony and aggressive middle-income dynamic exporters came to present an increasing challenge to some traditional domestic industries, the American authorities became progressively concerned with strengthening legal discipline within the GATT[100].

As a result, an important move was then made to subject the application of several non-tariff measures to multilaterally supervised discipline. However, as changing the Protocol of Provisional Agreement – the basic GATT charter – involves going through complicated ratification procedures

[98] Cline *et alii*, (1978), p. 192 and Swann (1983), p. 71.
[99] Note that, except for the MFA, non-tariff measures fell outside the reach of the GATT.
[100] Hudec (1984), op. 65 ff.

and the changes have to be ratified by a two-thirds majority, thus giving effective veto powers to a coalition of developing members, the new rules were introduced through specially negotiated "codes".

Of special relevance to the US was the negotiation of a Subsidies and Countervailing Duties code, intended as a means to impose greater control over penetration by industrializing countries' subsidised exports. The latter, on the other hand, saw the negotiation of this code as an opportunity to subject countervailing duties to some form of injury test. Besides the Subsidies and Countervailing Duties Code, a revised Anti-Dumping Code was drafted together with new codes on Technical Barriers to Trade, Government Procurement Rules, Import Licensing Procedures and Customs Valuation Procedures.

To developing countries, however, the effective results of the Tokyo Round were far from impressive. Firstly, as in other MTNs, "delegations from a number of developing countries expressed concern about the lack of opportunities for their involvement in the negotiating process under the multilateral trade negotiations... Decisions were being taken by a small group of countries... often outside the multilateral trade negotiations and not in Geneva"[101]. Secondly, the codes were drafted on the basis of the "conditional MFN approach", and its benefits applied only to signatories, in a clear breach of old-established GATT principles. Thirdly, the negotiations were marked by US pressures upon the relatively industrialized developing countries for the acceptance of the sort of legal discipline formally applying to industrialized GATT signatories – the "graduation" principle, whose implications were discussed above. Last but not least, hones that a proposal for a thorough reform of the GATT legal framework so as to give greater weight to the trade and development needs of developing countries, which were put forward by Brazil and led to the formation of the Framework Group, were falsified. Indeed, the agreement stemming from the works of the Framework Group formally included the principle of graduation, embodied in the so-called "Enabling Clause" of the agreement[102]. Vague as it is this clause remains as an effective weapon to be used discretionarily against the more advanced SELA member countries.

Moreover – and this perhaps stands as the greatest failure of the last MTNs – the Tokyo Round codes were far from providing a legal basis for substantial trade liberalization as participants were unable to reach agreement on a new drafting of GATT's Article XIX dealing with Emergency Action on Imports of Particular Products. Failure to do so meant failure to submit protectionist actions taken against competing imports to International surveillance so as to verify the extent that "serious injury"

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[101] GATT, Com. TD/100, August 1978, p. 11, quoted in Tussie (1984), p. 68.

[102] The clause reads: "less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or [to] take other mutually agreed action… would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement". GAT (1979A), p. 7.

was being inflicted as well as, in the affirmative case, to ensure that the emergencial safeguard measures taken were to be temporary in nature. In practical terms, this meant that the quantitatively most important non-tariff barriers affecting manufacturing trade such as those under OMAs and VERs were not discussed, and that almost no progress was made towards dismantling agricultural non-tariff protection at the Tokyo Round[103].

Part II

Prospects for greater liberalization of world trade and the position of Latin American and Caribbean Countries

This second and final part of the paper deals with current and prospective trade policy problems of Latin American countries. It is divided into two sections. Section 4 discusses the urgent need for trade liberalization to help achieving the export growth rates needed to solve the massive transfer problem facing most Latin American countries, the net gains related to the liberalization of existing barriers to trade for developing as well as developed countries, and the complex set of factors related to structural adjustment in the latter. Section 5 resumes the diverging arguments put forward since the 1982 GATT ministerial meeting by developing and developed countries in favour of the calling of a new MTN round, and proposes an agenda for these negotiations which could serve to improve the trade and development performance of Latin American and Caribbean countries.

4. Challenges to the post-war multilateral trading system in the 1980s; the need to further the growth of Latin American exports and structural adjustment in the centre

The slump in world trade and the ensuing threat to the stability of world financial markets during the early years of the present decade were certainly the most serious challenges to the multilateral trading system since its reconstruction following World War II. Even though the rapid recovery of the American economy and lower interest rates have since 1983 helped solving the massive transfer problem facing most Latin American countries, their fragile external position and potential macroeconomic instability in the centre remain as important obstacles to the return to the

[103] The proportion manufactured imports controlled by official safeguard action taken under Article XIX remained around 2% in the EEC and the US, if MFA trade is not taken into account. Gard and Riedel (1980).

stable and sustained growth of the world economy. Considering that the domestic costs of recessive external adjustment programmes limit the possibility of their continued application in developing countries, the perspective for a long-run solution of the debt problem hinges on their export-led growth, that is, on the possibility of debtor countries sustaining export growth rates which are higher than world interest rates.

The capacity to respond to the need for export-led growth varies among Latin American countries for structural reasons. However, even granting that first-best export promotion policies are maintained or implemented in those countries, the behaviour of the crucial interest rate-export growth rate relationship will still depend heavily on two entirely exogenous factors. One is the stability of interest rates presently kept under a permanent threat by the huge fiscal deficits run by the US federal government, and the lack of macroeconomic policy coordination among the leading OECD economies. The other – and probably the more important in the long run – is the maintenance of the present backlog of restrictive measures affecting debtor countries' exports or, worse, the rise of protectionism against debtor countries' manufacturing exports which is a certain outcome if OECD governments fail to provide the stimulus to a sustained growth of their economies or to achieve a smooth realignment of the overvalued US dollar.

The gains accruing to developing countries from the demolition of existing barriers to trade can be substantial. Recent estimates suggest that US imports of the "core products" specified in Table 3.1 above would increase by 5.2% in the event all post-Tokyo Round tariffs are removed. Imports from developing countries into the US would increase by 5.9%. For the EEC these rates would be 4.9% and 3.8% respectively and for Japan 3.8% and 3.5%[104]. Similarly, there is considerable scope for a substantial increase in the importance of Processing activities of raw materials and foodstuffs in developing countries which are affected by tariff escalation. The World Bank estimates that if tariffs on processed agricultural goods were removed there would be an increase of 20% in value added in developing countries for just a limited sample of the eight most important products. On the other hand, if developing countries processed all their metal exports to the bar stage this would imply an increase in their exports of US$ 44 billion in the late 1970s – something around 20% of total non-OPEC developing countries' exports[105].

The consequences of reform of the present trade regime in connection with non-tariff barriers would be even more impressive. Evidence on the impact of their removal suggests that American total imports of "core products" would increase by 7.2% while imports from developing countries would increase by 10.2%. The joint impact of tariff and non-tariff barriers removal would increase these rates to 12.4% and 16.1%, respectively. EEC's total imports of "core products" would increase

[104] UNCTAD (1985), p. 42. For a list of "core products", see UNCTAD (1985), annex I, pp. 3-6.
[105] UNIDO (1980), p. 3 and World Bank (1981), quoted in Commonwealth Secretariat (1982).

by 6.5%; imports from developing countries would increase by 6.6%. The joint impact of the removal of tariff and non-tariff barriers would be to increase these rates to 11.4% and 10.4% respectively. Japan's total imports would increase 3% in the event there was a non-tariff barrier liberalization and developing countries' imports would increase by 1.3%. The consequences of a total liberalization would be rates of increase of Japanese imports of 6.8% and 4.8%, respectively, for total and developing countries' imports. The distribution by product for imports from developing countries would be as shown in Table 4.1.

Table 4.1

Rates of Increase of Imports of Developed Countries Originating in Developing Countries in the Event Tariff and Non-Tariff Barriers are Totally Removed

	USA	EEC	Japan
Food Items	9.1	21.0	24.2
Food and live animals	9.0	21.0	25.8
Oil seed and oil nuts	5.8	0	1.0
Animal and vegetable materials	15.0	46.4	8.6
Agricultural raw materials	6.1	1.2	2.2
Ores and metals	6.0	16.9	3.6
Iron and steel	28.1	46.5	14.7
Non-ferrous metals	0.7	2.0	3.8
Fuels	0.7	9.3	2.9
Chemicals	4.2	8.7	9.2
Other manufactured goods	43.2	28.6	12.5
Leather	1.8	11.9	81.6
Textile yarn and fabrics	49.0	43.1	10.1
Clothing	134.1	92.3	21.2
Footwear	69.6	67.4	34.6

Source: UNCTAD (1985), p. 45.

As would be expected the major impact of a trade liberalization would be on developing countries' imports restricted by major obstacles to trade such as the agricultural policies of the EEC and Japan, the MFA affecting textiles and clothing and VERs on steel products and footwear in the US and the EEC.

It should be stressed, however, that gains from liberalization of the present backlog of protectionism measures affecting developing countries would not accrue only to them. In the present situation, where most Latin American and Caribbean countries face severe foreign exchange constraints, industrial country protectionism is self-defeating since any cut in the debtor countries' capacity to earn foreign exchange must be compensated by a cut in their hard currency imports, affecting mostly industrial country exports. Moreover, the need to save scarce convertible currency

receipts for debt-related transfers and non-compressible imports which can only be supplied by industrial countries has increasingly forced debtor countries to resort to bilateral barter arrangements, a trend which should not be stimulated if multilateralism is to be preserved.

Distributive benefits to developed countries resulting from a reduction in their trade barriers should also not be underestimated. Costs in developed countries affect consumers as well as producers[106]. Consumers pay prices considerably above world prices: up to 40%, for instance, in the case of textiles in Britain. Taxpayers pay for the substantial transfers to cover losses or to fund restructuring by domestic firms, especially in the EEC, in such sectors as steel, motor cars, shipbuilding and textiles[107]. Producers lose because resources are tied up in relatively inefficient activities; producers of other goods may lose because of retaliatory action by countries whose imports are affected by restrictions.

Who benefits from such arrangements to restrict trade? In developing countries those firms which are exporting earn a rent as prices are above free market prices and there is an inertial influence in the distribution of quotas which discriminates against new entrants. For similar reasons countries which are major quota recipients may have vested interests in the continuation of such arrangements as they are unwilling to relinquish their quotas as they would have to face competition from new entrants which include some very low price suppliers.

In developed countries benefits are mainly appropriated by domestic firms which produce protected goods and by workers who do not lose their jobs. This has been the conventional justification for the introduction of quantitative limitations to imports but recent research has thrown some doubts over such views[108]. Indeed, employment in protected industries has generally continued to decline in the long-run in spite of the favourable short-run consequences of import restriction. Management in affected industries is not deterred by the imposition of quantitative restrictions from introducing labour-saving machinery as the only way of remaining competitive especially so as there is uncertainty about the level of protection in the future[109]. More workers are displaced by the introduction of new labour-saving equipment than by the direct competition of imports. Evidence on the relative importance of imports and of increased labour productivity as factors which explain the loss of jobs suggests that for the seven larger developed countries only about 20% of the contraction in employment in the apparel industry in the first half of the 1970s can be explained by increased imports[110].

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[106] See Commonwealth Secretariat (1982), Chs. 4 and 5.

[107] The consumer cost per job protected was of more $50,000/year in the late 1970s in the US. The taxpayer cost per job saved was of more than $40,000 in the shipbuilding industry in Sweden. Commonwealth Secretariat (1982), pp. 85-86.

[108] Silberston (1984), Ch. 4 and Verreydt and Waelbroeck (1982), p. 380.

[109] Baldwin (1984), pp. 33-34.

[110] Apan *et alii* (1978), quoted by Greenway (1983), p. 180. This is in line with forecasts for the British economy in Silberston (1984), Ch. 7.

What information is available on comparative costs in developed and developing countries in the production of sensitive products makes clear the significant competitive disadvantages of developed countries. Labour costs in such suppliers of textiles as Sri Lanka are about 5% of the labour costs in developed countries; even in Hong Kong these are not more than 15% of labour costs in the richest Western European economies. Labour costs in the US/EEC Steel industry are 56% larger than Japanese labour costs, 5 times other Asian labour costs and 2.5 times Latin American labour costs. In the case of steel, moreover, the bulk of productive equipment in developed countries (Japan excepted) is less efficient than those of new mills in the developing world[111].

The impact upon developed countries of the removal of quantitative restrictions on developing countries' exports varies quite considerably depending on the product affected. Recent work on textiles suggests that the removal of quantitative restrictions would involve a fall in retail prices of about 5% in a country such as the UK. Evidence points out to a relatively speedy re-employment of dislocated workers, this being helped by the high mobility of textile workers in comparison to other industrial workers. As wages in the textile industry are relatively low re-employed workers are frequently better-off in in their new jobs. It has also been calculated that in Canada the social gains of shedding jobs in the textile industry would amply exceed the private costs per job lost (something like Canadian $360,000 against Canadian $5,000)[112]. Readjustment in the steel industry, on the other hand, is bound to be costlier for workers, labour turnover being traditionally much lower, the industry much more concentrated both geographically and in larger units of the production, and wages higher than in the textile sector.

The political possibility of liberalizing the present world trade regime as well as the more limited objective of avoiding its further deterioration fundamentally depends, however, on developed countries earnestly facing the need for structural adjustment of their economies in response to a changing world distribution of high-productivity capacity in several sectors. The challenge is how to adjust the sectoral distribution of domestic output capacity to changes in both the level and composition of demand for domestically produced goods – resulting from the combined effect of a complex set of factors affecting aggregate demand and, especially, the competitiveness of domestic industry in relation to imports – without large employment losses which are, of course, politically sensitive.

Structural adjustment would be immensely helped by the maintenance of high rates of growth in the developed economies, as these help sustaining high investment levels which ease the inter-sectoral transfer of resources needed in the process of adjustment. Indeed, protectionism has been used by developed countries to slow down the speed of contraction of output, especially in a context

111 Wolf *et alii* (1984) and Crandall (1980).
112 Silberston (1984), Ch. 5 and Wolff *et alii* (1983), p. 477.

marked by economic recession. A better overall economic performance by the developed countries in recent years would have made it easier to adjust to structural changes by transferring labour to more competitive activities and less tempting to single out exporters – including many from developing countries – to bear the brunt of the adjustment process whose causes are much less straightforward than would suggest the standard protectionist *cri de cœur*.

However, foreseeable long-run structural trends should also underline the need for industrial policies in the centre and inform its sectoral priorities. In fact, it is difficult to analyse industrial country protectionism without considering the complete set of reasons which explain the forces which make for the contraction of specific sectors of economic activity in OECD countries.

When the behaviour of OECD imports in the last twelve years is examined it becomes clear that important structural trends are at work which outweigh the cyclical behaviour of aggregate demand. In fact, as table 4.2 shows, OECD *aggregate* import volume has varied in a roughly similar way during the two cycles of economic activity which occurred since 1973: a first full-cycle of depression and recovery petering out in 1979/80 with a new oil shock, followed by the present recovery.

Different commodity groups have, however, shown extremely contrasting behaviour: the volume of energy imports has decreased by almost 60% per unit of GDP since 1973 while raw materials and foodstuffs import volumes per unit of GDP have decreased by 20% and 6%, respectively. The volume of manufactured goods imports per unit of GDP, on the other hand, has increased by more than 30% during the same period, the impact of cyclical demand being not particularly marked.

Table 4.2

Import Volumes per GDP unit, OBCD (1973 = 100)

Period	Manufactured Goods	Energy	Raw Materials	Foodstuffs	Total
Post-first oil shock:					
1975	94.4	86.0	87.1	96.8	91.8
1976	105.8	89.4	95.7	98.7	99.6
1977	107.9	88.9	93.4	92.3	99.5
1978	111.5	84.2	93.0	94.7	100.4
1979	118.1	85.9	98.5	97.5	105.1
Post-second oil shock:					
1981	117.8	66.0	81.6	92.9	96.5
1982	117.4	61.8	82.4	100.5	96.5
1983	124.1	59.2	79.7	95.9	98.7
1984*	129.8	60.7	81.3	95.0	103.1
1985*	134.6	61.3	81.8	94.2	105.9

Source: OECD (1984).

* Estimates.

The reduction in the volume of oil imports is basically explained by the introduction of more efficient oil-consuming equipment and by the substitution of oil by other forms of energy. Structural change in domestic output away from those sectors which consume more oil per unit of output as well increased domestic production in traditional importing countries were important factors as well.

These same trends, albeit in a less extreme form, can be detected in the case of raw materials. Contrary to what has happened following the first oil shock, there were no raw materials price increases after 1979 which could explain a sustained inducement to economy and substitution as in the case of oil[113]. In any case, more work must be done on the identification of the factors responsible for such an important contraction in the volume of raw materials imports per unit of GDP.

Decreased foodstuffs imports result from the impact of aggressive import substitution policies adopted in certain developed countries – the EEC particularly – on products whose income elasticity of demand is particularly low. Much of what has been occurring is a direct result of government intervention protecting domestic markets and financing subsidized sales in the world market which drive prices down.

Protection of the domestic production of manufactured goods, while also affecting the level of imports, occurs in a much more dynamic market so that the volume of OECD imports of such products per unit of GDP has been increasing rather rapidly. So, for instance, in the steel industry the fall in domestic production in the EEC and the US over the last decade or so, and the increase in exports of developing countries (as well as Japan) is the result of combined effects of the cyclical pattern of aggregate demand and changes in its composition (away from steel-consuming products or Services), the increased efficiency in the use of steel, the substitution of steel by other materials and the better competitive position of foreign suppliers. This improved competitive position results from lower costs of labour and/or raw materials, from more efficient productive capacity as a result of the lower average age of nominal capacity, or macroeconomic policies which affect real foreign exchange rates. This process is creating long-term idle capacity in spite of some capacity contraction as the cyclical component is much less important than structural factors. Other industrial sectors, such as those producing textiles, and, to a lesser extent, footwear are also particularly affected by protectionist measures due to basically similar reasons. The costs of adjustment are being partly exported by developed countries by the use of protective measures which delay the adjustments forced by the changed competitiveness capabilities of domestic producers.

To counter the increasingly important protectionist lobby in developed countries it is important that developing countries should be able to present a comprehensive view of structural change in those sectors which are more important from their point of view – steel, textiles, foodstuffs, certain

[113] Indeed, the second oil shock was followed by a fall in the prices of developing countries' exports which only aggravated what has been said about import volumes.

raw materials – in the context of the world economy, with the object of explaining the evolution of demand, the rate of technical progress, the competitive position of developed countries in relation to developing countries and the capacity to absorb labour. Arguments should not be restricted to criticisms of the costs implied by the distortions entailed by protectionism: the thrust of the argument should indeed be that increased import penetration of developed markets is not generally the most important reason to explain the contraction of output and employment in domestic competitive activities and that protection – which is, in general, extremely costly – has not generally been very successful in significantly delaying adjustment.

5. A Latin American and Caribbean agenda for trade liberalization

The end of the latest MTNs was followed by the second oil shock, high interest rates and recessive macroeconomic adjustment in the leading OECD economies which triggered in the early 1980s a worldwide recession, a sharp collapse in commodity prices and the worst International trade slump since the Great Depression. The resulting dramatic increase in the foreign exchange needs of non-oil developing countries eventually prompted a fruitful reaction against increasing protectionism during the GATT ministerial meeting of November 1982. The Declaration then issued States that in drawing up GATT's priorities for the 1980s, the contracting parties should undertake "to ensure the effective implementation of GATT rules and provisions and specifically those concerning the developing countries, thereby furthering the dynamic role of developing countries in international trade"[114]. This Declaration certainly marks the high point in the developed signatories' declared intentions towards constructing a world trade regime more responsive to the needs of developing countries. As perceived by the overwhelming majority of its developing signatories the success of the GATT as an effective forum for trade liberalization initiatives in the coming years will, to a large extent, depend on whether the principles embodied in the 1982 Ministerial Declaration can be made the basis of a practical consensus among industrial countries towards revising their backlog of protectionist measures affecting developing countries[115].

They believe that unless this can be done, "any initiative such as a new round of negotiations in GATT would be lacking in credibility and devoid of relevance, particularly for developing countries ... and that discussions on implementation of the existing [1982] Work Programme mandated by the Ministers would remain an academic and proforma exercise unless ... the developed contracting parties ensure a standstill on all protectionist measures along with an appropriate and

[114] GATT, *Focus*, December 1982.

[115] For a comprehensive view of the GATT protectionist backlog as seen by developing countries see the communication presented by the delegation of Uruguay on behalf of its developing countries contracting parties in 4 May 1984 (GATT Doc. L/5647).

meaningful roll-back, starting with action in favour of the less developed contracting parties"[116].

The main thrust of this position is the view that "while adherence to the principles of free trade under the m.f.n. clause and rejection of protectionism are continually proclaimed as generally shared objectives, the international trading environment continues to worsen on the ground due to the outright protectionist actions of a general and specific nature undertaken by major trading partners and their failure to comply with GATT provisions"[117].

However, to a large extent, the developing countries' position has to be explained as a defensive move against the fact that developed countries – and, especially, US – attention in GATT since the 1982 ministerial declaration "seems to be focussing disproportionately on new themes, all of which are of doubtful importance and relevance to the GATT system and some even alien to the jurisdictional competence of the GATT"[118], i.e., the regulation of grey areas such as trade in Services and direct investment.

In fact, US pressures to try and include these 'new themes' in the GATT agenda were visible since at least the preparatory stages of the 1982 ministerial meeting. Since then US pressure for an early opening of negotiations to consider the "new themes" at the GATT grew, becoming frantic after the call by the Big Seven for the launching of a new MTN round at their recent summit in Bonn.

It is indeed interesting that the 1982 declaration was inspired by the Reagan administration, concerted within the OECD, approved in the Ottawa summit of the Big Seven, and that the items concerning the liberalization of restrictions affecting the exports of developing countries were embodied as a *quid pro quo* for the acceptance of these new industrial country "trade" policy objectives. However, the industrial countries' recent call for a new MTN round was followed almost exclusively by their suggestions to extend its agenda to cover the "new themes". No openings were made for either the crucial issue of previous backlog revision or the need for joint consideration of International trade and debt problems forcefully proposed by developing countries in their collective statements before the GATT and whose importance was underlined with special emphasis in the recently issued Leutwiller Report[119].

The US position, which is leading that of the other developed countries contracting parties in shaping the Northern agenda for the coming MTN round, is the outcome of old as well as new trends in American trade policy. Old trends are reflected in the disregard for the developing countries' criticisms of the inequalities inherent to the present trade regime, which is the culmination of a long-term process of increasing demoralization of the GATT by the actions of the leading industrial

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[116] *Improvement of World Trade Relations though the Implementation of the Work Programme of GATT*, communication presented by the delegation of India on behalf of developing countries contracting parties. GATT Doc. L/5744, 23 November 1984, p. 1.
[117] Idem, p. 2.
[118] Idem.
[119] See GATT (1985), *passim*.

countries, especially the US and the EEC.

New trends include most importantly the Progressive abandonment by the US of multilateralism as a cornerstone of international trade negotiations and is replacement by the infinitely narrower, essentially bilateral and issue-oriented notion of "reciprocity", usually put forward under a veiled threat of retaliation. In part, the trend towards "reciprocity" as a norm for trade negotiations reflects a tactical US position towards the negotiation of the "new themes" – including "graduation" – with its developing trade partners. As pointed out by Cline, "a major objective of the reciprocity movement is to open up foreign markets in *services and foreign investment*, two areas that have been largely outside the trading rules of the General Agreement on Tariffs and Trade (GATT)"[120].

The recent US-led initiative of industrial countries to press the discussion of these issues as the basis for an early round of multilateral negotiations in the GATT may, however, point towards a weakening of reciprocity as an approach to trade policy and a return to the old-established norms of "free-trade imperialism", i.e., that of placing under GATT discipline the trade in sectors in which the industrial countries have obvious competitive advantage.

Nevertheless, the undeniable acceptance of reciprocity as a legitimate approach to trade policy is a standing threat to one of the basic pillars of the post-war multilateral trade order. Interestingly enough, in the present situation there have been the relatively powerless and smaller trading nations which have emphasized their belief in rule-making in the realm of the GATT and respect for the established liberal principles of the multilateral trade regime, with the proviso of Part IV of the General Agreement. The very basis of the developing countries' position towards their industrial trading partners' proposal of a new round of trade negotiations – that is, the former's insistence on the previous clearance of the GATT protectionist backlog as a condition to discuss the possibility of enlarging GATT's jurisdiction to encompass the "new themes" – rests on the belief that a truly liberal trading system presupposes substantially dismantling the present semi-illegal system of trade impediments. It is thus a grave mistake to consider the conditions put forward by developing countries to willingly participate in the MTN round recently proposed by the industrial countries as being in any way a radical and non-constructive stand.

Indeed, the position taken by developing countries is a positive one, and an agenda addressing the long-standing issues that should be considered *prior* to discussing "new themes" in an enlarged GATT can be easily drawn up. Such an agenda should contemplate a concerted attack on six trade-distorting areas, namely, the CAP, the MFA, VERs and OMAs, tariff escalation and arbitrary GSP graduation, selective discrimination in special preference schemes, and countervailing duties. More specifically:

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[120] Cline (1983), p. 123.

(i) In relation to the CAP an important short-term objective should be to achieve a return to the system of 'deficiency payments', which do not cause demand contraction as the present levies system. The strategic objective should remain, of course, being the dismantling of agricultural protectionism. The benefits from liberalizing the CAP vary widely among developed countries – and even among Latin American countries, Argentina being by far the greatest beneficiary of such an outcome – but it should be put forward as firmly as possible as a block proposal and could possibly count with the support of Australia and New Zealand and even, eventually, that of the United States and Canada.

(ii) In relation to the MFA, which is Corning up for renewal in 1986, a limited tactical objective should be to shorten the time span of the agreements and increase the scope of structural adjustment programmes in developed countries. The strategic objectives should again, of course, be the total abolition of the scheme. It may prove difficult to achieve a united developing country front on this issue, as a thorough reform of present textile trade rules would certainly run against the interests of the Asian NICs.

(iii) As to VERs and OMAs – a subject of interest not only to developing countries but to Japan as well – the main negotiating strategy is to press for a redrafting of Article XIX of the GATT and subject the application of safeguard measures to strict multilateral surveillance.

(iv) As to tariff escalation against processed materials and unilateral GSP graduation there is a wide margin of consensus among developing countries in favour of a substantial reduction in the former and of an end to the latter.

(v) The dismantling of special preference agreements, though an Interesting long-run objective, remain difficult to achieve in the short-run as there is intense opposition to it from both developing and developed countries benefitting from such neo-colonial schemes. It should be noted, however, that these arrangements could be replaced without loss to their developing beneficiaries by less trade-distorting measures such as aid or export earnings stabilization programmes already contemplated in the current preferential agreements.

(vi) Finally, as long as the debt burden of developing countries remains at the present level, the application of countervailing duties against subsidized exports, especially imposed by the US, should be forbidden. During this period, export subsidies should be allowed at rates decided by the exporting country as emergency balance of payments action. In the long run, the granting of subsidies at non- disruptive bilaterally agreed rates by developing countries should still be tolerated as an element of their industrial policies for a limited period, and the application of CVDs should be subject to strict multilateral surveillance.

APPENDIX A

Trends in Latin American and Caribbean trade: an overview of its growth, structure and direction

1. The impact of the Great Depression and World War II

The impact of the 1929 depression on Latin America's export prices was severe but short-lived. By the late 1930s the regions' share of world exports had already resumed the upward trend started in the 19th century[121]. This share increased still more in the immediate post-Second World War period as prices of Latin American exports of primary products increased very considerably in relation to other export prices, reaching a peak in the early 1950s in spite of the near stagnation of export volumes (see Table A.1).

Primary products corresponded then to more than 99% of Latin America's total exports, and the degree of export specialization was very high in all countries. Thus, as market conditions varied markedly among different products so did the export performance of countries within the region. Economies which depended relatively more on the exports of fuels or tropical food and beverages had a much better performance than those specializing in the production of temperate foodstuffs. The latter actually lost shares of the market in relation to the late 1920s.

The contrast between the behaviour of oil exports and of other exports between 1928 and 1955 cannot be overemphasized. The share of oil increased from 5% of total exports by developing ("non industrialized") countries in 1928, to 10% in 1937-38 and 20% in 1955 as stressed in the Haberler Report. The Report also stressed the contrast between, on the one hand, agricultural raw materials, tropical foodstuffs and metals and ores and, on the other hand, temperate foodstuffs. Not only the volume of these latter contracted by 15% between 1928 and 1955 – as opposed to an expansion of around 40% by other groups – but their prices as well as those of agricultural raw materials increased only about 75% whereas those of tropical foodstuffs and minerals and ores increased by 152% and 122% respectively[122].

The war brought about important changes in the direction of trade. In 1912, European markets corresponded to more than double the American market, and while by 1928 the ratio had fallen to 1.6, it increased again to 2 in the late 1930s. In the late 1940s and early 1950s, however, Latin American exports were mainly absorbed by the US market in sharp contrast to pre-war market distribution. By 1948-51 the US bought on average in Latin America 35% more than Europe (see Table A.2)[123]. The American encroachment in European market shares was, however, earlier and more pronounced than in the case of exports: by the early 1950s the US was exporting about twice the amount Europe was exporting to Latin America in sharp contrast to the position in the late 1920s

[121] For export prices see UN (1951), p. 17. Yates (1959), p. 32 presents data showing a rising Latin American share of world exports since 1913: 8.3% in 1913, 9.8% in 1928, 10.2% in 1937, 11.3% in 1953 (excluding socialist countries). Lewis (1978), p. 169 suggests that trend may have started at least in 1883 as Latin American exports grew at rates equal or larger than average.

[122] See GATT (1958), paragraphs 88 and 89.

[123] See UN (1953), p. 3.

when the European share was larger than the North American (see Table A.3)[124].

Table A.1
Shares of Latin America Exports in World Exports, 1928-1982

Country	1928	1950	1955	1960	1965	1970	1975	1980	1982
Argentina	3.12	1.92	0.99	0.84	0.80	0.56	0.34	0.40	0.42
Brazil	1.45	2.22	1.51	0.99	0.85	0.87	0.99	1.01	1.01
Mexico	0.74	0.86	0.86	0.59	0.60	0.41	0.33	0.76	1.13
Chile	0.72	0.47	0.51	0.38	0.37	0.39	0.19	0.23	0.21
Colombia	0.39	0.65	0.62	0.36	0.29	0.23	0.17	0.20	0.17
Peru	0.38	0.31	0.29	0.34	0.36	0.33	0.15	0.19	0.17
Venezuela	0.36	1.91	1.99	1.90	1.47	1.01	1.03	0.99	0.89
Other	2.61	4.06	3.13	2.40	2.06	1.80	2.30	2.07	1.85
Total	9.8	12.4	9.9	7.8	6.8	5.6	5.4	5.8	5.9

Source: League of Nations (1932), UNCTAD (1983) and (1984).

Table A.2
Network of World Trade: destination of exports of specific regions* (%)

A. 1928

Origin / Destination	NA	J	WE	Oceania	CSA	Asia and Africa	USSR
NA	23	5	46	3	14	8	1
J	43	-	8	2	2	43	1
WE	8	1	64	3	7	15	1
Oceania	9	6	72	4	-	8	1
CSA	35	-	55	-	9	-	-
Asia and Africa	16	8	43	1	1	27	2
USSR	5	2	76	-	-	17	-
World	16	3	55	2	7	15	1

B. 1963

Origin / Destination	NA	J	WE	ANZSA	CSA	ODA	ETA	Unsp.
NA	26	7	07	3	13	16	1	
J	31	-	14	5	6	36	5	3
WE	9	1	63	4	5	13	4	1
ANZSA	14	12	46	6	1	12	6	3
CSA	38	4	35	-	15	2	5	-
ODA	11	8	46	4	1	22	5	2
ETA	1	1	17	-	4	9	66	2
World	15	4	45	3	6	14	12	1

C. 1981

Origin / Destination	NA	J	WE	ANZSA	CSA	ODA	ETA	Unsp.
NA	28	9	24	3	15	17	4	
J	28	-	16	5	6	37	6	2
WE	7	1	63	2	3	17	5	1
ANZSA	12	20	24	5	2	25	5	7
CSA	36	5	21	-	21	7	8	1
ODA	19	16	32	2	5	22	3	1
ETA	2	3	25	-	3	14	49	3
World	16	6	40	2	7	19	9	1

NA = North America
J = Japan
WE = Western Europe
CSA = Central and South America
ANZSA = Australia, New Zealand, South Africa
ODA = Other Developing Areas
ETA = Eastern Trading Area
Unsp. = Unspecified

[124] UN (1953), p. 3.

2. Stagnation of traditional exports in the 1950s and early 1960s

While in the early 1950s some countries such as Brazil and Colombia were still enjoying a sharp improvement in their terms of trade, in other countries like Argentina and Uruguay export prices were already deteriorating. From 1954 this latter trend became generalized in Latin America: by 1960 export prices had fallen by almost 20% from their previous peak. Although export volumes increased by less than 4% in the decade, the share of Latin America in world exports fell precipitously in the decade from more than 12% in 1950 to 8% in 1960 (see Table A.1).

If Venezuela is excluded the fall would be even more spectacular as the fast increase in oil exports made this country responsible for practically all the increment in the value of Latin American exports in the decade[125].

Falling export prices and laggard demand were not the only factors which explain the poor export performance of Latin America in the 1950s. The adoption in many countries of inward looking policies aiming at fast import substitution implied the use of instruments which increased profitability of such domestically oriented activities to the detriment of exports. Overvalued exchange rates, import Controls, multiple exchange rates, and credit subsidies were the rule, aggravating those general trends which tended to insulate Latin America from world markets.

In the first half of the 1960s Latin American exports were only increasing at slightly more than 6% a year, while the markets of developed countries were growing at more than 10% a year. Their share in world exports continued to fall, especially so in the case of foodstuffs and fuels (see Tables A.1 and A.4). Manufactured goods still represented less than 4% of total exports (Table A.5) and only 0.5% of the world market for these goods (Table A.4) in spite of extensive industrialization in several countries of the region.

During the 1950s a limited adjustment towards pre-war geographical patterns of trade took place. Europe tended to maintain her position as a market for Latin American exports while the US share fell slightly. However, in comparison with the pre-1930 period the importance of intraregional trade continued to be larger – its share was more or less constant in the decade – while Japan and the socialist countries became more important as markets for Latin American exports.

[125] UN (1964), pp. 124, 125 and 129.

Table A.3

Network of World Trade: Share of specific markets (%)*

A.1928								
Suppliers / Markets	NA	J	WE	Oceania	CSA	Asia and Africa	USSR	World
NA	29	32	17	28	39	11	20	20
J	8	-	-	2	1	8	2	3
WE	24	17	54	55	45	47	44	46
Oceania	2	6	4	5	-	1	2	3
CSA	21	1	10	-	12	-	2	10
Asia and Africa	17	44	13	10	3	31	29	17
USSR	-	1	2		-	1	-	1
3.1963								
Suppliers / Markets	NA	J	WE	ANZSA	CSA	ODA	ETA	World
NA	34	38	14	21	39	21	2	19
J	7	-	1	6	3	9	1	3
WE	25	11	58	50	30	38	16	41
ANZSA	3	11	3	6	1	3	2	3
CSA	19	7	6	1	18	1	3	7
ODA	10	29	13	16	3	20	6	13
ETA	1	4	4	1	8	8	69	12
C.1981								
Suppliers / Markets	NA	J	WE	ANZSA	CSA	ODA	ETA	World
NA	27	20	9	23	34	14	6	15
J	14	-	3	18	7	15	6	8
WE	18	7	61	34	19	34	21	38
ANZSA	1	6	1	5	-	3	1	2
CSA	13	4	3	1	19	2	5	6
ODA	26	57	17	18	15	26	7	22
ETA	1	5	6	1	5	7	53	9

* For abbreviations and sources see Table A. 2.

3. Growth and diversification from the mid-1960's to the first oil shock

From the mid-sixties onwards the outlook for Latin American exports changed sharply as faster growth rates in OECD countries led to an increase in the rate of growth of primary products imports from 3.3% in 1955-63, to 5.8% in 1963-68, and 19.1% in 1968-73[126].

Changed conditions in the international financial markets turned possible a marked increase of the inflow of foreign capital which had as main result a shift away from extreme inward-looking policies as foreign exchange constraints ceased to be binding. This not only allowed an increased level of imports in relation to GDP – which had been continuously reduced by a third since the early 1950s – as encouraged the adoption of "outward looking" exchange rate and export promotion

[126] GATT (1978), table A.6.

policies reducing the previous anti-export bias and enhancing the competitiveness of manufactured exports. As a result, Latin American exports rose by 10.8% a year in 1965-73 in contrast to 3.6% in the previous fifteen years. Still lower than world exports but less markedly so (see Tables A.1 and A.4).

Table A.4

Latin America: 1955-81 – Share in World Exports of Selected Commodity Groups (in %)

	1955	1960	1965	1970	1975	1980	1981
Total Exports	9.9	7.8	6.8	5.6	5.4	5.8	6.1
Food	20.5	17.5	16.1	15.9	14.6	14.2	13.4
Agricultural raw materials	8.9	7.0	7.9	5.9	4.7	4.4	4.7
Minerais and ores	14.5	14.6	15.1	15.2	13.2	14.5	16.2
Fuels	27.4	25.6	20.5	15.1	10.8	9.8	11.5
Non-ferrous metals	14.4	11.8	12.8	12.2	10.0	8.9	7.4
Manufactured goods	0.7	0.5	0.6	1.0	1.3	1.5	1.6
Chemicals	2.0	1.7	1.6	2.3	2.8	2.3	2.7
Iron and steel	0.7	0.6	1.1	1.1	0.8	1.8	2.2
Machinery and Transport Equipment	0.1	0.1	0.1	0.4	0.7	1.0	1.2
Other Manufactured products	0.6	0.6	0.9	1.3	1.7	1.8	2.2

Sources: UNCTAD (1979), UNCTAD (1981) and UNCTAD (1983), tables A.1 to A.10.

Table A.5

Latin America: 1960-81 Commodity Composition of Trade (in %)

Exports	1960	1965	1970	1973	1975	1979	1981
Food	42.6	42.8	41.3	40.0	35.1	33.5	26.0
Agricultural raw materials	9.5	9.1	6.0	5.5	3.3	3.6	2.8
Ores and metals	12.5	13.9	17.5	12.0	9.6	9.5	7.7
Fuels	31.8	28.4	24.4	26.3	38.2	35.7	46.3
Manufactured goods	3.6	5.8	10.4	14.5	13.2	17.2	17.2

Imports	1960	1965	1970	1973	1975	1979	1981
Food	12.6	13.6	11.0	12.5	10.0	10.2	10.3
Agricultural raw materials	3.7	3.8	3.0	2.7		2.1	1.7
Ores and metals	2.0	3.0	3.0	2.7	2.3	2.7	1.9
Fuels	14.3	12.9	11.7	15.7	23.0	21.1	22.7
Manufactured goods	67.4	66.7	69.1	64.3	60.6	59.4	63.4

Note: Commodity groups defined as follows: Food (SITC 0+1+22+4), Agricultural raw materials (SITC 2-22-27-28), Ores and metals (SITC 27+28+68), Fuels (SITC 3) and Manufactured goods (SITC 5 to 8 less 68). Totals do not add up to one hundred because of rounding.

Sources: UNCTAD (1979), tables A.1 to A.5 and A.8, UNCTAD (1981), tables 3.2A, 3.2B and A.7 and UNCTAD (1984), tables A.1 to A.10.

Different commodity groups had a sharply contrasting performance during the boom. As can be seen in Table A.4, manufactured goods were the only major group in which Latin America managed to increase its share of world exports in the ten years after 1965. The regions' exports of manufactured goods increased 26.5% per year from 1965 to 1973 while world trade in manufactures rose by 16.4% a year. Rapid manufactured exports growth also led to important changes in the commodity composition of the region's exports, the share of manufactured goods in total exports rising steadily from 5.8% in 1965 to 10.4% in 1970 and 14.5% in 1973.

This significant improvement in the performance of manufactured exports resulted, to a large extent, from the introduction of extensive fiscal and credit incentives favouring those exports. This was undertaken especially by those countries more advanced in the path of industrialization largely in response to fast growing world trade in manufactures and the positive effects of tariff liberalization in GATT rounds of multilateral trade negotiations, and in anticipation of concrete advantages entailed by the eventual introduction of the Generalized System of Preferences (GSP) by developed countries in the 1970's.

As far as total exports are concerned, Brazil seems to have the only major economy to have really profited from the world trade boom. In contrast to Argentina and México, she managed to increase her share in world exports from the mid-1960s (see Table A.1). However, all three countries responded to incentives provided by the world market in manufactured goods and more outward looking domestic policies. Their joint share in the region's total manufacturing exports rose from near 60% in 1965 to 75% in 1973 with the share of manufacturing exports in total exports increasing sharply in all three countries, but especially so in the case of Mexico (see Table A.6). Machinery and Transport Equipment as well as Other Manufactured Products were the groups which grew relatively more (see Table A.7).

2. Adjustments from the first oil shock to the onset of the debt crisis

Latin America's adjustment to the first oil shock was relatively smooth in spite of important asymmetries. Some countries, being oil exporters, indeed profited from the sharp increase in oil prices; non-oil countries were able to adjust by financing current account deficits at the risk of sharply increasing their foreign debts, a strategy made possible by the extremely accommodating mood of world financial markets.

The latter countries were, of course, aware that such a strategy required a permanent commitment to a relatively "open" economic policy as fast growing exports were required to pay for the rapidly increasing foreign debt Service. However, the growth of exports did not depend only on the commitment to export-promotion policies but, primarily, on exogenous factors such as the level

of activity in industrial countries, the rate of technical progress in relation to changed relative prices, the growing instability of key exchange rates and, last but not least, the noticeable revival of protectionism in the main OECD economies as discussed at length in this Report.

Table A.6

Latin America: 1965-1973 – Manufacturing Exports (in millions of current dollars and 5%)

	1965	1970	1973
Manufacturing exports			
Argentina	144	420	978
Brazil	237	580	1672
Mexico	183	444	1200
Others*	386	731	1275
Latin America	950	2175	5125
Share of manufacturing exports in total exports of:			
Argentina	5.1	12.3	19.0
Brazil	7.5	9.7	17.9
Mexico	13.0	30.0	40.8

* Includes other ALADI members, CACM and CARIFTA/CARICOM members, Panama and Dominican Republic.

Sources: ECLA/UN (1979), p. 60 and Ranis (1982), pp. 223 and 225.

Table A.7

Latin America and the World: 1965-81

Yearly Rates of Export Growth of Selected Groups Manufactured Products (in %)

Product Group	1965-75		1975-79		1979-81	
	Developing America	World	Developing America	World	Developing America	World
Chemicals	20.5	17.6	14.0	19.7	11.6	-1.4
Iron and Steel	16.2	16.8	38.3	11.5	10.1	1.8
Machinery and Transport Equipment	36.2	18.3	16.3	17.4	4.0	8.9
Textiles	-	12.0	16.3	17.4	4.0	6.6
Others	23.0	15.7	26.0	19.7	10.1	6.9
Total Manufacturing	23.9	17.2	23.2	17.1	3.1	7.4

Source: UNCTAD (1981), (1983) and (1984), A6, A7, A9, A10 and A11. Textiles are defined as including SITC classes 26, 65 and 84.

Nevertheless, taken as a whole, Latin America was able to stabilize her share in world exports since 1970 (see Table A.1). Every commodity group with the exception of manufactured goods experienced either a slight decline in their shares in total world exports or a relative stability since 1970 (see Table A.4).

However, as a proportion of total Latin American Exports Food, Agricultural Raw Materials and Ores and Metals showed distinctively declining shares, while manufactured goods participation increased continuously and oil varied roughly in line with OPEC's pricing policies (see Table A.5).

The region's non-oil primary exports which accounted in 1973 for almost 60% of total exports felt the impact of severe price fluctuations caused by the cyclical instability of demand in industrial countries and the particular slump of tropical beverage prices in 1978 (see Table A.8).

Manufactured goods, on the other hand, increased not only their share in the region's total exports but also in the world's total exports of manufactured goods. They were led by Iron and Steel as well as Machinery and Transport Equipment and Other Manufacturing exports (see Table A.7) which grew at rates higher than world exports. This reflected productivity differentials, the growing role on intrafirm trade, the extent of idle capacity in specific sectors and more structural developments within OECD, as discussed in greater length in section 3. Larger economies such as Argentina, Brazil and México exported relatively larger shares of more sophisticated goods such as Iron and Steel, Transport Equipment as well as Electrical and Non-Electrical Machinery (see Table A.9).

The change in the commodity composition of exports outlined in the preceding paragraphs entailed a rather substantial change in the direction of the region's trade as shown by Table A.2. Between 1963 and 1981 there was a marked increase in the shares of intraregional trade as well as of trade with Other Developing Areas and the Eastern Trade Areas in total Central and South American exports to the detriment of the share of Western Europe. The origin of imports tended to change even more spectacularly between 1963 and 1981 (see Table A.3) as the share of North America fell from 39% to 34% of total imports, that of Western Europe from 30% to 19% while the shares of intraregional imports increased from 18% to 19% and that of Other Developing Areas from 3% to 15%.

Table A.8

Latin America: 1973-1981 – Indicators of Primary Exports Performance (rates of change in the year shown)

	1963-72	1973	1974	1975	1976	1977	1978	1979	1980	1981
GDP growth of major trading partners	5.0*	6.2	0.1	-1.2	5.2	4.5	4.0	4.0	3.3	0.8
Unit value of:										
World Manufacturing exports	3.0	17.7	21.8	12.3	-	9.0	14.7	14.5	11.0	-5.0
Latin-America non-oil primary exp.	4.3	47.4	20.9	-12.5	23.0	27.3	-13.6	14.2	14.0	-14.7

* Refer to 1968-1972.

Source: IMF (1981), Tables 9, 14 and 76.

Table A.9

Latin America: 1977 – Commodity Composition of Manufacturing Exports (in % of total manufacturing exports of each of the countries shown)

	Chemicals	Textiles	Clothing	Footwear	Iron and Steel	Transport Equipment	Electrical Machinery	Non-Electrical Machinery	Others
Large exporter of manufactures	11.3	9.9	3.9	3.8	7.6	13.0	7.6	17.4	26.0
Argentina	23.0	3.7	6.2	1.6	6.0	15.0	3.5	16.1	34.9
Brazil	6.0	12.5	3.3	5.7	8.6	14.6	9.9	21.0	18.4
Mexico	23.1	9.8	2.5	1.2	6.9	5.4	5.9	9.6	35.6
Medium-size economies	15.3	12.5	5.3	• • •	2.3	5.5	1.5	' 4.1	53.5
Colombia	11.3	18.2	10.8	• • •	• • •	3.4	1.9	5.9	48.3
Chile	21.3	• • •	• • •	• • •	5.9	2.7	1.4	3.3	65.4
Peru	11.8	27.9	• • •	• • •	• • •	21.8	• • •	• • •	78.5
Oil-exporting countries	.60.1	2.0	1.9	• • •	3.7	1.4	1.0	2.9	27.0
Others	36.9	10.9	8.5	2.4	6.1	1.1	4.0	1.1	30.5
Latin America	19.5	10.1	5.0	2.9	6.6	9.0	5.9	11.7	30.0

Source: UN (1980), *passim*.

Table A.10

Latin America: 1981 – Commodity Composition of Exports by Area of Destination (in % of total in each commodity group shown)

	U.S.	Other Industrial Countries	Developing America	Other Developing Countries	Socialist Countries	Total Value (US$ millions)
Food	20.9	36.0	9.2	9.3	23.3	30,663
Agricultural raw materials	9.6	51.3	15.3	8.8	14.8	3,254
Ores and minerals	21.8	60.9	6.5	4.6	6.0	6,208
Fuels	46.5	25.7	23.7	3.5	0.2	54,652
Non-ferrous metals	24.4	53.4	11.4	6.5	4.4	2,852
Manufactured goods	24.1	24.7	41.6	7.8	1.8	23,239
Chemicals	24.0	29.0	40.8	4.0	2.1	3,816
Iron and Steel	36.0	24.1	26.0	11.9	1.9	1,599
Machinery and transport equipment	23.0	18.3	46.1	12.5	0.1	6,253
Textiles	11.4	41.4	24.5	8.0	14.3	3,893
Other	22.4	27.9	41.5	5.1	3.0	7,678

Source: UNCTAD (1984), Tables A.1 to A.10. Percentages may not add up due to residual items.

Appendix B

A classification of non-tariff barriers

UNCTAD has classified non-tariff barriers according to the following three-tier classification (Yeats (1979), pp. 106-8):

Type I – Commercial policy measures designed primarily to protect import-competing suppliers from foreign competition, or to assist exporters in expanding foreign markets:

Group A: Measures operating through quantitative restraint of trade:

1. Import quotas: globally administered including unspecified import quotas.
2. Import quotas: selectively or bilaterally administered.
3. Licensing: discretionary and restrictive.
4. Licensing: liberal, including licensing for statistical purposes.
5. Export restraints of a voluntary nature, imposed by trading partners, both bilateral and multilateral.
6. Import prohibitions: embargoes.
7. State trading.
8. Domestic procurement practices by public units.
9. Domestic content and other mixing regulations.

Group B: Measures operating primarily through costs and prices:

1. Variable levies or supplementary import charges, including minimum price regimes.
2. Advanced deposit requirements.
3. Anti-dumping and countervailing charges.
4. Credit or other restraints on imports through the financial sector.
5. Tax benefits for import-competing industries.
6. Direct or indirect subsidisation of import-competing industries, including credit subsidisation.
7. Special discriminatory internal transport charges.

Type II – Measures designed to deal with problems not directly related to commercial policy questions, but which are from time to time intentionally employed to restrict imports or to stimulate exports.

Group A: Measures operating through quantitative restraint of trade:

1. Communication-media restrictions.
2. Quantitative marketing restraints.

Group B: Measures operating through costs and prices:

1. Packaging and labelling regulations, including mark-of-origin rules.
2. Health and sanitary regulations and quality standards.
3. Safety and industrial standards and regulations.
4. Border tax adjustments.
5. Use taxes and excises.
6. Customs clearance and related practices.
7. Customs valuation procedures and related practices.
8. Customs classification procedures and related practices.

Type III – Measures consistently applied with little or no intent to protect domestic industry, but which unavoidably produce certain spill-over effects in the trade sector.

1. Government manufacturing, sales and trading monopolies covering individual products.
2. Government structural and regional development policy measures.
3. Government balance of payments policy measures.
4. Variations in national tax systems.
5. Variations in national social insurance and related programmes.
6. Variations in allowable depreciation methods.
7. Government financed research and development, and technology spill-overs from defence and other programmes.
8. Scale effects induced by government procurement.
9. Variations in national weights and measures.
10. Discriminatory external transport charges.

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