

1. The Background to Protectionism

“The first business of all trading nations must be to try to keep international trade continually expanding, for unless it is expanding, the changes in the relative importance of countries which circumstances continually demand cannot be achieved without friction. The world must continue to make the problems of each the official concern of all, so that they may be solved by discussion and mutual concession”.

Arthur Lewis, 1949

The problems of commercial policy which we have been asked to consider cannot be isolated from the wider issues confronting the world economy in the 1980s. We begin, therefore, by analysing the more important trends at work in international trade and finance, the prospects for the 1980s and the problems posed by the changes in progress.

An Unstable World Economy

1.2 The past decade has been marked by great turbulence in the world economy. This took a number of forms of which the most persistent was price inflation. In all the industrial countries in the OECD except Switzerland, consumer prices have risen since 1970 by at least 80 per cent and in some the rise has been more than fourfold. Inflation has continued through boom and slump, the rise in retail prices averaging over 10 per cent in the industrial countries, even in years of depressed activity like 1980 and 1981. In the developing countries inflation has reached still higher rates, averaging about 40 per cent in 1980 and again in 1981.

1.3 In the developed countries inflation went with slower growth and rising unemployment: not only inadequate levels and slower growth in output associated with failure to maintain full employment but slower growth in productivity as well. In the later seventies economic growth was at a rate averaging about half that experienced in the 1950s and 1960s. It

has been lower still in 1980 and 1981 — just over 1 per cent. This slowing down was particularly marked in manufacturing and was reflected in rising unemployment on a scale unknown since the early 1930s. The reduction in employment in turn tended to be heaviest in manufacturing, the sector most affected by international trade.

1.4 Instability in prices, output and employment was associated on the one hand with monetary expansion and currency instability and on the other with successive jolts from large and abrupt increases in the world price of oil to which importing countries had difficulty in adjusting. Both of these factors made for severe international imbalance, with abnormally large surpluses and deficits in balances of payments, wide fluctuations in exchange rates, large-scale movements of volatile funds from one country to another and a rapidly growing burden of international indebtedness concentrated on the developing countries.

1.5 This external instability reacted back on domestic economies. Deficit countries felt compelled to reduce their deficits even at the cost of restricting economic activity; efforts to prevent a slide in exchange rates led to reliance on higher interest rates when these were already moving up as expectations of continuing inflation became firmer; and these higher interest rates presented increasingly difficult problems for the countries that were borrowing abroad to finance their deficits. For many of the developing countries in particular, higher interest rates, together with increased dependence on borrowing from private banks and a consequent shortening of maturities, all at a time of reduced export growth, created serious debt-servicing problems. High interest rates also contributed to downward pressures on primary commodity prices through their effects upon private stockholding decisions, intensifying balance of payments pressures on countries with limited access to commercial borrowing.

1.6 Instability in its various forms, and the uncertainty to which it gave rise, narrowed the options open to governments and disposed them to take resolute action against what they saw as its prime source: inflation. In the struggle, economic activity inevitably suffered so that by 1982 there was a wide gap between the level of demand and output in the industrial countries and their full economic potential. Unemployment developed on such a vast scale that the resumption of expansionary policies, even if successful, would take many years to reduce the amount of slack to the levels experienced in the 1960s and 1970s. The process of recovery is likely to be slowed down by the fears of governments that it might bring back inflation and by the danger from which these fears derive, that too rapid an expansion would encounter supply bottlenecks as demand took new directions and met with inadequate capacity.

1.7 It is not easy to assess the prospects for the rest of this decade. There is a danger that the present international depression may become still deeper and more protracted. On the other hand, once recovery begins and the slack in the industrial economies is gradually absorbed, this may permit a temporary acceleration in economic growth as output rises to rejoin the previous trend. It would seem prudent to allow for an intermediate prospect in which the world economy remains plagued by instability, running well below capacity, and registering rates of expansion lower than in the days of the post-war secular boom.

The Slowdown in Market Expansion

1.8 Slower growth in the industrial economies has had its inevitable effect on international trade. After 1973, world markets became less buoyant and the volume of trade expanded at less than half the rate of the previous decade (see Table 1.1).

1.9 Measured in current prices, the growth of world trade shown in Table 1.1 looks impressive. But the fast rates of expansion under each heading correspond more to the inflationary movement of prices than to the comparatively slow growth in volume. This is particularly true of fuels, where the whole of the increase by value since 1973 is accounted for by price rises. On the other hand, agricultural produce, where the rate of increase by volume was well maintained, experienced a relative price decline and was the slowest growing of the four groups in value terms. By 1980 the share of agricultural exports in the value of world trade had fallen to a post-war low of 15 per cent while fuels had expanded to nearly a quarter.

1.10 Measured in constant prices, the change in trend was greatest in fuels where there was a net contraction in the volume of trade between 1973 and 1980 and a further contraction thereafter. By contrast, trade in agricultural products, for rather special reasons, seems to have maintained a comparatively steady rate of expansion. Manufactures, much the largest element in the total, slowed down from a rate of growth of 11 per cent per annum to an average of 5 per cent in the later 1970s and 3½ per cent over the last two years.

1.11 In those two years world trade has virtually ceased to expand. In 1980 it rose in volume by 1 per cent and in 1981 it stagnated. While trade in agricultural products and in manufactures continues to grow, the increase under these headings was more or less offset by the fall in petroleum exports by 10 per cent in 1980 and a further 14 per cent in 1981. The persistence of expansion in trade in manufactures, in spite of the sluggishness of world demand and the protectionist pressures which we discuss in this Report, is mainly to be attributed to the continued growth in

import demand in developing countries. Three-quarters of the increase in volume of world trade in manufactures in 1981 was due to the expansion in exports to developing countries: 45 per cent to members of OPEC and 30 per cent to the others.¹

TABLE 1.1
Growth in International Trade, 1963-81

	Value of world trade billion dollars		Average annual percentage increase in world trade			
	1973	1980	by value		by volume	
			1973-80	1963-73	1973-80	1979-81
Manufactures	348	1,089	18	11	5	3½
Minerals (excl. fuels)	32	91	16	7	4	-9
Fuels	63	468	33		-4	
Agricultural products	121	296	14	4	4½	3
Total	574	1,973	19	8½	4	¾

Sources: GATT, *International Trade 1980/81*; *International Trade in 1981 and Present Prospects*, Press Release 1313, 23 March 1982.

1.12 The slowdown in market expansion has been coupled with the introduction of fresh barriers to trade that bear particularly heavily on the developing countries. In reviewing these barriers we have thought it natural to examine them from the point of view of the developing countries as a group as well as from the point of view of the industrial countries that impose them. We have not, however, lost sight of the wide differences between the countries included in each group and the consequent differences in the impact of the new protectionism on individual developing countries, as well as the differences in the forms and extent of protectionism in individual developed countries. For many primary producing countries, the old agricultural protectionism is at least as damaging as the new industrial protectionism and has indeed taken new and more damaging forms. In the case of manufactures, what has been achieved so painfully in lower tariffs has for many developing countries been altogether offset, and more than offset, by quantitative and other limitations that are most severe where the developing countries have proved most successful.

1.13 Trade does, however, provide a bond between the developing and developed countries. In spite of all barriers, the trade has continued to

grow. It is in the interests of both groups of countries to encourage this growth: for the developed countries it brings a welcome expansion in export markets when production is flagging and for the developing countries it is an indispensable element in their development.

The Impact of Recent Trends on the Developing Countries

1.14 Many of the developing countries continued to make progress in the 1970s at a rate that compared favourably with the record of earlier years. While the industrial countries suffered a severe setback, with rates of growth in GDP substantially lower after 1973 than in the previous quarter of a century, the developing countries as a group, including the oil exporters, maintained on the average, rates close to those experienced in the 1960s. On one reckoning the growth in per capita real income for the entire group (including the oil producers and taking account of the favourable change in the terms of trade that this involves) was appreciably higher.² This outcome, however, largely reflects the rise in oil prices, the major oil-exporting countries enjoying an average improvement in per capita real income of over 11 per cent per annum in the 1970s compared with one of under 1 per cent in the previous decade. Per capita real income in the oil-importing developing countries did not grow faster but rather more slowly in the 1970s. Moreover there were wide differences between the different groups making up the total. While the fast-growing exporters of manufactures experienced an acceleration in the growth of per capita income between the 1960s and 1970s from 3.5 per cent to 4.0 per cent, the least developed countries, where real income per capita had shown no increase in the 1960s, registered negative growth in the 1970s. In about half the developing countries for which there are figures, per capita growth was less than 2 per cent per annum in the 1970s while in the previous decade the corresponding proportion was only one-third.³ Whatever the record for the decade as a whole, more recent experience is disturbing. By 1981 average per capita incomes in the developing countries as a group had ceased to increase.

1.15 In the 1970s the trade of the developing countries showed the same range of experience as their per capita growth. Between 1973 and 1980 the OPEC countries increased their exports from \$42 billion to \$297 billion and their share of world trade from 7.3 per cent to 15.6 per cent, thanks entirely to the rise in oil prices.⁴ The non-oil developing countries as a group increased their exports from \$68 billion to \$245 billion and slightly improved their share but at a slower rate than in the preceding decade. Within the group some enjoyed a rapid growth in export volume while others suffered a contraction. For the fast-growing exporters of manufactures, for example, the rate of expansion in exports averaged 11.8 per cent in the 1970s, compared with 5.8 per cent in the 1960s while for the least

developed countries, whose exports had grown by 4.4 per cent per annum in the 1960s, there was an actual fall over the 1970s (see Table 1.2). Since the terms of trade were decidedly less favourable to the oil-importers at the end of the decade than at the beginning, the movement in purchasing power over imports was less favourable, both to the fast-growing exporters of manufactures and to the least developed countries, than the change in their exports might suggest.⁵

TABLE 1.2
Growth in Volume of Exports from Developing
Countries and Purchasing Power of their
Exports, 1960-80

	Growth in export volume (per cent per annum)		Growth in purchasing power of exports (per cent per annum)	
	1960-70	1970-80	1960-70	1970-80
Major oil exporters	8.6	-1.4	7.2	17.9
Non-oil exporting developing countries	5.1	7.6	5.7	4.5
Of which:				
Fast-growing exporters of manufactures	5.8	11.8	7.0	8.2
Least developed countries	4.4	-0.4	3.6	-2.2
All developing countries	6.4	3.1	6.2	10.0

For country groupings, see Appendix 3.

Source: UNCTAD, *Trade and Development Report, 1981*, p.38.

1.16 Over the past two years the earlier buoyancy of exports from the non-oil developing countries has largely disappeared. As Table 1.3 brings out, the volume of exports for each of the main groups of developing countries grew at a progressively slower rate and the terms of trade either became steadily less favourable or (in the special case of the net oil exporters) ceased to improve. For the entire group, purchasing power over exports, which was increasing rapidly between 1976 and 1979, grew in 1980 and 1981 by not much over 1 per cent per annum.⁶

TABLE 1.3
Trade of Non-Oil Developing Countries, 1968-81

	Volume of exports				Growth in purchasing power of exports ¹			
	Percentage changes from preceding year							
	Annual 1968-72	1979	1980	1981	Annual 1968-72	1979	1980	1981
All non-oil developing countries	8.4	9.4	5.6	3.9	8.4	9.1	1.1	1.6
Of which:								
Net oil exporters	5.3	9.1	6.0	3.3	3.8	26.2	13.7	2.9
Net oil importers	9.3	8.7	5.0	3.2	8.9	5.2	-2.2	0.1
Of which:								
Major exporters of manufactures	11.8	10.4	5.6	4.4	12.6	7.0	2.6	3.4
Low income countries	5.5	3.9	1.5	-1.5	6.1	-3.8	-13.8	-9.7
Other net oil importers	6.7	7.2	5.0	2.1	5.2	5.1	-7.3	-3.9

1. Export earnings deflated by import prices.

For country groupings, see Appendix 3.

Source: IMF, *World Economic Outlook*, Appendix B, Table 13, April 1982.

Changes in Developing Countries' Trade

1.17 The experience of the OPEC countries as a group has been fundamentally different from that of the rest of the developing world. Not only did their level of real income and the value of their exports grow much faster after 1973 but they were also for much of the time in very large surplus on current account and free, almost without exception, from balance of payments constraints. They were in addition a rapidly expanding market, and one where other developing countries took an increasing share. Thus few of them were plagued by the trade and financial difficulties besetting other countries. Most had not the least difficulty in finding a market for their exports (at least until very recently), whatever the

impediments some countries continued to put in the way of fuel imports. They enjoyed an almost continuous surplus on trade account. And so, far from struggling with increasing debt obligations at rising rates of interest, they were ranked with the creditors and able to draw an expanding income from external assets.

1.18 We can therefore for present purposes set the OPEC group of countries on one side and concentrate on the other developing countries. As we have seen, these have taken a slowly growing share of world trade. They have also taken a growing share of imports into the OPEC countries and their trade both with OPEC and, to a lesser extent, with one another has expanded as a proportion of their total trade (see Table 1.4). Over 60 per cent of their trade, however, is still with the industrial countries. That is where their main markets lie and it is this trade that is the usual source of the issues of commercial policy with which we are concerned.

TABLE 1.4
Exports from Developing Countries (excluding OPEC), 1973-80

Exports to:	Value of exports (\$ billion)			
	1973		1980	
Industrial countries	47.7	(70%)	153.0	(62%)
OPEC countries	2.4	(4%)	17.5	(7%)
Other developing countries	12.5	(19%)	54.0	(22%)
Total ¹	68.3	(100%)	245.0	(100%)

1. Including Australia, New Zealand, South Africa and centrally planned economies. For country groupings, see Appendix 3.

Source: GATT, *International Trade 1980/81*, Table A22.

1.19 In spite of the difficulties restricting this trade, it continued to grow throughout the 1970s. In value terms, as Table 1.5 shows, the increase in exports to the industrial countries was more than threefold; in volume terms it was probably only about 20 per cent. Of the three principal elements in the total, fuel fell in volume but more than doubled its share of export earnings; other primary produce (including agriculture) rose comparatively little in volume and shrank from 58 to 39 per cent of total exports by value; manufactures were the one element to grow strongly in volume and formed an increasing proportion of total exports.

TABLE 1.5
Exports from Developing Countries to
Industrial Countries, 1973-80

	1973 at current prices (\$ bn)	1980 at current prices (\$ bn)	1980 at 1973 prices (\$ bn)	1973-80 Increase in volume %
Exports from non-OPEC countries				
Fuels	4.3 (9%)	37.0 (24%)	3.7	-14
Other primary products	27.8 (58%)	59.5 (39%)	29.75	+ 7
Manufactures	15.1 (32%)	56.5 (37%)	25.45	+ 68.5
Total (incl. other)	47.7 (100%)	153.0 (100%)	58.9	+ 23.5
Exports from OPEC countries	32.6	220.0	25.5	-22
Exports from all developing countries	80.3	373.0	84.4	+ 5

Source: GATT, *International Trade 1980/81*, Table A22.

1.20 Primary produce (excluding fuels) is now almost equalled in importance by manufactures, while fuels — even with the omission of OPEC countries — are nearly two-thirds as large an earner of foreign exchange as all other primary produce put together. This picture is radically different from the situation twenty or more years ago. It has been estimated, for example, that in 1958 manufactures formed only about 5 per cent of the exports of non-industrial countries to industrial countries, compared with 71 per cent for primary produce other than fuels, and 23 per cent for fuels (a proportion inflated by inclusion of OPEC countries).⁷

1.21 What emerges clearly from this comparison is the overwhelming effect on international trade of higher oil prices and the remarkable growth

of manufactured exports from the developing countries, especially in comparison with the slow growth in exports of primary produce. Only a limited group of oil-producing countries profited directly from the rise in oil prices although a number of other developing countries profited indirectly. The growth in exports of manufactures was also dominated by a small group of countries, three of them supplying 40 per cent of the total and ten of them 75 per cent in 1978.⁸

1.22 It would be a mistake, however to suppose either that this changing structure of exports or the question of market access for manufactures relates only to a handful of developing countries. Many other oil-importing developing countries are experiencing similar increases in the share of processed and manufactured products in their total export receipts. 'Latecomers' in this respect can expect to move into industrial exporting activities which the 'firstcomers' vacate as they continue to industrialise. Even those countries which rely overwhelmingly upon primary product exports can usually make semi-processed and processed versions of them as their development proceeds.

1.23 Oil-importing developing countries that are still mainly dependent on a limited range of exports of primary products — and this includes most of the least developed countries — have had to face both a slower expansion in world markets and declining terms of trade over the past decade. In 1980 the low-income oil-importers were exporting 42 per cent more by volume than in 1970 but their purchasing power over imports (net of fuel imports) was almost one-third lower than in 1970.⁹

1.24 The change in the terms of trade against the oil-importing countries has become increasingly pronounced over the past eighteen months. In that period the dollar price of their commodity exports has fallen on average by nearly one-third. Primary commodities other than oil may now purchase less in real terms (per unit of export) than they have done at any time since the Second World War.¹⁰ The effects upon the developing countries that are dependent on exports of primary produce, particularly the poorest who have the least access to means of financing balance of payments deficits and the least flexibility of adjustment, have been severe. Per capita income has actually declined in the majority of the poorest developing countries during the past two years, and there is little immediate prospect of a turnaround.

1.25 The fall in commodity prices has aggravated the chronic balance of payments problems of the oil-importing developing countries. As a group they have been running large current account deficits for several years and have been obliged to borrow heavily to help cover these deficits. Those low-

income countries that have been unable to obtain commercial credit have been forced to reduce drastically their investment and consumption expenditures. Many others have incurred a high external debt, a large proportion of which has been contracted on short-term and at high rates of interest. They have to allocate a large and rising proportion of their earnings of foreign exchange to meet the service on that debt. The external debt of middle-income primary producers, for example, rose from 17 per cent of their GDP in 1973 to over 24 per cent in 1980, while their debt service payments as a proportion of export earnings doubled from 10 to 20 per cent. For all developing countries, once repayments of short-term debt are included, the cash flow on debt service absorbed one-half of current account receipts in 1981 compared with one-third in 1977.¹¹

The Outlook for Developing Countries' Trade

1.26 There is a marked contrast between some of the expansionary longer-term trends that we have described in the trade of the developing countries and the unpromising immediate prospects now facing them if the present depression continues. Most of the developing countries have come a long way over the past three decades. Where an average growth rate in GDP of 3 per cent per annum seemed ambitious as recently as 1950, a rate of 5 or even 6 per cent was clearly feasible twenty years later.¹² The trade of the developing countries was growing fast until recently and in the past two decades has undergone a major change in structure. Where these countries tended to be heavily dependent on a few staple commodity exports (or even a single one) with volatile prices, a large number of them were beginning to gain a foothold in markets with very different characteristics, where prices are relatively stable and the total market is immense. Except in Africa or among the members of OPEC, fewer and fewer developing countries now depend on a single export for half their earnings of foreign exchange.¹³ This diversification could materially reduce the uncertainties attaching to their export prospects and offer new opportunities of long-run growth.

1.27 As a group, the developing countries had begun to make rapid headway in world markets for manufactures and several of them were poised for a more broadly based expansion.¹⁴ Given access to world markets, the developing countries could be expected to take advantage of market opportunities and continue to increase their shares of world trade. At present, this share is still small. In 1980 only 9 per cent of imports of manufactures into developed countries came from developing countries and their share of the market in the developed countries was on the average about 3 per cent. Nevertheless, many of them have become newly alive to the advantages of export-propelled growth and are increasingly ready to adopt policies encouraging it.

1.28 On the other hand, the immediate outlook for the trade of the developing countries gives grounds for serious concern. First of all, many of the favourable circumstances from which they profited in the 1970s have disappeared or are much less propitious. Markets in the OPEC countries are no longer booming as they did and remittances by foreign workers in these countries to their home base have ceased to expand. The banks are much less ready to make credit available and the bill to be paid in interest charges is much more formidable. The terms of trade are swinging against the developing countries. All this comes on top of a major change in the economic climate and a devastating slowdown in economic activity throughout the world. This not only contracts the markets in the industrial countries that have been the mainspring of world economic growth but blurs the market signals to which investment responds, so that the developing countries are at a loss to decide which way to turn in planning the future of their economies.

1.29 To make matters worse, the expansionary trends which we discussed earlier are contingent on a freedom of access to markets in the industrial countries that has been steadily curtailed. These trends cannot continue, even if world expansion is soon resumed, unless the drift to protectionism is arrested and reversed. There is a very real danger that protectionism and world depression may feed on one another.

1.30 The trade restrictions that have been introduced over the past decade bear especially heavily on the exports of the developing countries. The new barriers to trade that have grown up in the industrial countries apply with special force to the manufactured exports of those countries and are highly discriminatory.

1.31 Meanwhile, the restrictions on trade in agricultural products, which have all along been denied any form of international surveillance, continue unabated. Indeed the situation here, too, has deteriorated with the entry on a large scale into the limited international markets for these products of some of the world's highest cost producers whose growing exports have been made possible by subsidies (e.g. restitutions in the EEC). Moreover, the narrowing of world markets for agricultural products, resulting from well-nigh universal protection, makes for the very instability of prices that is advanced as an excuse for protection against low-cost suppliers. This leaves the exporters of primary produce in a highly vulnerable position in the face of a world depression. Liberalisation of trade in agricultural products is therefore of great importance and could benefit a significant number of developing countries.

The Rising Tide of Protectionism

1.32 It is not easy to stem the tide of protectionism in a world in which markets have ceased to expand. The costs of adjustment to a growing volume of imports are more readily shouldered if exports are growing too and if the extinction of one set of jobs can be balanced by fresh job opportunities in an expanding economy. But the rate at which resources can be transferred is limited both by rigidities of all kinds — reluctance to change jobs, problems of re-training, logistic limits to the creation and expansion of business units — and by the dilemmas of macro-economic management in seeking to maintain a steady pressure of demand. These dilemmas may oblige governments to retreat from policies of full employment because of the danger of inflation or an external deficit. Once such a retreat is sounded, governments give ear more readily to demands for protection, either on grounds of market disruption and the higher unemployment in prospect or because the external deficit would be aggravated by continued imports.

1.33 So far, new pressures of this kind have, with important exceptions, largely been held at bay. Where the line has been broken, however, all too often it has been imports from developing countries that have suffered most. Resort to new protectionist measures such as voluntary export restraints and orderly marketing arrangements has been increasing and there are signs of a general weakening of the resolve to maintain an open trading system. As we show in Chapter 4, this weakening seems to be happening when the increase in market penetration in developed countries by manufactured exports from developing countries has already slowed down considerably. Early in the 1970s, when the effects of the Kennedy Round of multilateral trade negotiations were still being felt, market penetration by developing countries, though relatively small, grew rapidly. But in the 1980s, notwithstanding the tariff reductions of the Tokyo Round, manufactured exports face a much tougher regime of non-tariff measures.

Links Between Developed and Developing Countries

1.34 In spite of these obstacles, trade between the developed and developing countries is likely to continue to grow. The developing countries (including the oil exporters) in 1980 took nearly a quarter of the exports of the industrial countries and the latter took 70 per cent of the exports of the developing countries. In manufactures alone, these proportions came rather closer together, at 27 per cent and 58 per cent. More important, the dependence of the industrial countries on the developing countries as a market for their manufactures is increasing. As recently as 1973 the proportion of their exports of manufactures that went

to developing countries was not 27 per cent as in 1980 but 19 per cent. It is still increasing. There is, moreover, a large and increasing balance in trade in manufactures in favour of the industrial countries. The excess of exports of manufactures from the industrial to the developing countries grew in the period 1973-80 from \$37.7 billion to \$168.7 billion. The restrictions on the far smaller imports of manufactures into the industrial countries have to be seen in the context of this imbalance, although in popular discussion they rarely are. As we argue in Chapter 5, it is an illusion to suppose that the growing interchange between developed and developing countries can be arrested or limited in one direction without serious repercussions on the flow in the opposite direction.

1.35 The developing countries face a different problem if they must now reconcile themselves to a slower growth of their main markets — the industrial countries. In order to sustain their rate of growth in exports they need to secure a higher share in a market that is stagnating or contracting. If access to the market is increasingly restricted this intensifies the difficulty. Yet if the momentum of export expansion in the developing countries falters, the pace of development in their domestic economies is also likely to suffer. The question, therefore, arises what options are open to the developing countries in the face of a continuing slow-down in world trade and increased protection in the markets of the industrial countries.

1.36 The first possibility would be to turn to the more rapid expansion of their domestic markets. But these markets, particularly in the smaller countries, can rarely sustain output of manufactures on the scale necessary for efficient production. Where that scale is possible, as in clothing and textiles, the domestic market is usually already adequately supplied. Thus the resources that fail to be absorbed in exports have to be absorbed in other directions where there is likely to be either an existing excess of manpower and capacity, or an inefficient use of resources behind protective barriers.

1.37 A second possibility would be for the developing countries to offer each other preferential access to one another's markets, with a view to building up a "depression-proof" zone less closely dependent on depression-prone markets in the industrial countries. Apart from the problems encountered in the past by a purely regional approach of this kind, there are obvious difficulties in organising such arrangements, such as have been experienced repeatedly in developing countries' attempts at economic cooperation and integration. They would probably look highly favourable to the limited group of newly industrialising countries (NICs) which account for over half the total exports affected. Their success would be highly dependent, however, upon the full cooperation of the oil-

exporting countries which account for over a third of the total imports of manufactures into developing countries but are not themselves exporters of manufactures of much importance. In the immediate future, there is the further problem of relative magnitudes. The developing countries in 1980 sold over 50 per cent more in manufactures to the industrial countries than they sold to one another. A lower rate of growth in sales to industrial countries could only be offset by a considerably higher rate of growth in sales to other developing countries.

1.38 Nevertheless, recent experience shows that there is some possibility of more intra-trade providing a larger share of the growth in developing countries' exports. Whereas total sales of manufactures to industrial countries grew between 1973 and 1980 from \$15.75 billion to \$58.5 billion, i.e. by 270 per cent, sales to other developing countries grew from \$6.85 billion to \$38 billion, i.e. by 455 per cent. This faster rate of growth occurred in spite of the high levels of protection in most developing countries. A lowering of these barriers by the more advanced and rapidly growing developing countries would seem the most effective way to encourage further expansion in trade between developing countries.

The Wider Effects of Protection

1.39 The damage resulting from restrictions on trade extends far beyond the immediate economic effects considered in this Report. Any limitation of foreign markets has repercussions on the pace of agricultural and industrial development, on structural change and longer-term prospects of growth. When foreign markets are in doubt the mobilisation of capital from domestic and, still more, from foreign sources is impeded and the repayment of outstanding debt may be jeopardized. Above all, resentments may build up and issue in aggressive exchanges and a breakdown of peaceful relations when opportunities of fruitful effort are cut off by arbitrary and discriminatory acts on the part of foreign powers.

References

1. GATT, *International Trade in 1981 and Present Prospects*, Press Release 1313, 23 March 1982, p.13.
2. UNCTAD, *Trade and Development Report, 1981*, p.34. The figures of per capita real income, which take account of changes in the terms of trade, show a rise from 2.4 per cent per annum in the 1960s to 4.5 in the 1970s.
3. *Ibid.*, p.34.
4. All references to dollars in this Report refer to United States dollars except where otherwise specified.
5. UNCTAD, *op.cit.*, p.38.
6. IMF, *World Economic Outlook, 1982*, Appendix B, Table 13, April 1982.
7. GATT, *International Trade 1962*, Table 10, p.28.
8. World Bank, *World Development Report 1981*, p.24.
9. *Ibid.*, p.21.
10. IMF, *op.cit.*, p.137.
11. *Amex Bank Review*, 26 April 1982, p.1.
12. W.A. Lewis, "The Slowing Down of the Engine of Growth", *American Economic Review*, Vol. 70, No.4, September 1980.
13. Whereas for 20 African exporters of primary produce the largest single primary export still accounted for 46 per cent of total exports in 1976-78 compared with 49 per cent in 1960, for 23 non-African exporters of primary produce the fall over the same period was from 46 per cent to 32 per cent, and for a total sample of 56 developing countries from 47 per cent to 36 per cent. (J. Riedel, "Lewis on Trade as the Engine of Growth in Developing Countries", unpublished, 1981).
14. For example, the exports of manufactures of 31 middle-income developing countries (excluding the fast-growing exporters of manufactures), for which particulars are given in the *World Development Report 1981*, increased between 1962 and 1978 from \$522 million to \$16.1 billion.