3. The Extent of Protection

"Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers."

Treaty establishing the European Economic Community, Rome, 25 March 1957

"... basic objectives shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalisation of world trade in textile products...."

GATT Arrangement Regarding International Trade in Textiles (Multifibre Arrangement), 1974

3.1 This chapter examines the nature and intensity of protection as currently applied by the major developed countries. It begins with the primary products which are of basic importance to the economies of many developing countries, particularly the poorer ones, and some developed countries; the focus is primarily upon agricultural products, where the barriers impeding the trade and the development of exporting countries, many of them non-tariff, are greatest. For fuels and minerals in unprocessed form, tariffs are of minor importance, and where other barriers exist, they derive from special conditions of trade in these products. Primary processing, which follows, is a type of manufacturing which merits separate attention because it is in so many cases impeded by the very high effective rates of protection accorded developed countries' processing industries. In the next section on manufactures generally, the whole panoply of 'new protectionist' measures is briefly surveyed. Finally, attention is drawn to the increasingly important trade in services, which is also subject to various restraints, including some unique to that sector, and the special problems of evolving multilateral rules and disciplines in this area are addressed.

I – Primary Products

Competing Agricultural Products

3.2 Protection is most in evidence for products which can be grown in both developed and developing countries. The main commodities concerned are cereals (wheat, coarse grains and rice), sugar, oilseeds and vegetable oils, cotton, tobacco, citrus fruit and livestock products, both meat and dairy. For most of these, the greater part of the world export flow comes from developed countries. However, exports of sugar, rice, cotton, tobacco, beef and vegetable oils are also of great importance to the trade and development of a large number of developing countries.

3.3 World trade in agricultural commodities is — and has been for the fifty years since the end of British free trade — dominated by the policy and ability of the developed countries to protect their agricultural systems, or important sectors of them, from outside competition. This situation has engendered some of the most severe tensions in economic relations between these countries that have arisen since the Second World War.

3.4 Meanwhile, the developing country exporters of the competing products, and the smaller developed country exporters as well, lacking the bargaining strength of the big exporters and developed importers, have seen their trade restricted and their development slowed and distorted by the protectionist policies of the developed countries. To understand the extent of agricultural protection in developed countries it is necessary to quantify its dimensions. Because the nature of the measures applied makes precision difficult, the following assessment uses a variety of approaches.

3.5 Since measures to support and protect agriculture can succeed only if domestic farm prices can be insulated from lower prices offered by foreign suppliers, one indicator of the degree of protection is a comparison of national producer prices. Such a comparison is presented in Table 3.1 for certain major commodities.

3.6 With a producer price almost double that of the main exporters, namely the United States, Canada, Argentina and Australia, the EEC has rapidly become a large exporter of subsidised wheat, with its share of world exports rising from 6 to 14 per cent in the last five years. Thus the EEC's Common Agricultural Policy (CAP) not only imposes a high barrier to imports but also offers subsidised wheat in competition with developed and developing country exporters. The high degree of protection of rice in the industrial countries is evident from a comparison with the situation in the major developing country exporters, Thailand, Burma and Pakistan.

TABLE 3.1
Producer Prices in Selected Countries, Average 1977-79
$US per tonne

Wheat		Rice (paddy)			Cattle *a*	Milk *a*
Australia	107	Burma	63	New Zealand	78	8
Canada	111	Pakistan	80	Australia	100	11
Argentina	118	Thailand	131	Argentina	109	—
United States	119	United States	190*b*	United States	199	22
EEC	209	EEC	284	EEC	297	26*b*
Switzerland	517	Japan	1,034	Sweden	335	34
Japan	684			Switzerland	515	38
				Japan	582	51

a Prices per 100 kg. *b* Target price.
Sources: IWC, *World Wheat Statistics,* 1981; FAO, *Committee on Commodity Problems* (CCP: RI 82/7 and CCP: ME 80/4).

Many developing countries export rice to the EEC, subject to import levies ranging during the 1970s from zero to 60 per cent of the EEC entry prices. By far the biggest exporter to the EEC is the United States, a protected supplier. The EEC, Japan and the United States all make subsidised or concessional sales or aid disposals of rice, which is not to the advantage of the low cost developing country exporters. For oilseeds, during recent years US groundnut producers have received prices more than twice those ruling in a major African exporter, Senegal, while the EEC producer price for soya beans has been about three times that of the United States and about four times that of Brazil. Sunflower and olive oil are strongly protected in the EEC, as is rapeseed in the EEC, Finland, Poland, Sweden, Switzerland and Yugoslavia. Because of their highly protected domestic markets, the EEC is the world's largest dairy exporter, the United States has large surplus stocks, and Sweden and Switzerland are subsidised exporters; and the EEC is now the world's second largest exporter of beef, after Australia.

3.7 The available evidence indicates that the present enormously high levels of protection on temperate zone agricultural commodities in various industrial countries are the end result of a rising trend over two or three decades. In addition to comparisons of actual producer prices, another indication of the degree of price support involves the calculation of the percentage by which prices received by domestic producers exceed the prices at which the products are available from foreign suppliers or could be sold to foreign consumers. Using this type of indicator (known as the ad valorem tariff equivalent of protection measures), two Swedish economists[1] calculated that the level of price support in Western Europe, based on prices of wheat, sugar, milk, beef, pork and eggs, had doubled in some countries between 1956-57 and 1968-69; the proportion by which domestic prices exceeded world prices had risen in this period from 36 to 69 per cent for the EEC and from 38 to 62 per cent for Western Europe as a whole.

3.8 For the EEC, the rising trend in the level of protection that occurred in the 1950s and 1960s had not been arrested in the 1970s, as indicated in Table 3.2.

3.9 Dairy production appears as the most heavily protected sector of the European Community's agriculture, but the levels of protection are also high for sugar, wheat, maize and beef. The fluctuations in the indicator levels reflect changes in the external price levels, the degree of protection being low or negative in periods of high world prices, notably in 1973-74 and 1974-75. The nominal levels of the internal EEC prices have been rising virtually continuously. Thus the Community achieved its agricultural policy objective of internal price stability, but also raised the degree of protection for most commodities through the 1970s.

TABLE 3.2
Ad valorem Tariff Equivalents of Agricultural Protection in the European Community, 1970-71 to 1979-80
per cent above world price

	Butter	Oilseeds	Wheat (soft)	Maize	Sugar (white)	Beef	Rice (husked)
1970-71	381	31	89	41	103	40	110
1971-72	72	47	109	76	45	33	105
1972-73	149	31	53	43	27	12	15
1973-74	220	-23	-21	-2	-34	10	-40
1974-75	216	-20	7	6	-59	62	-19
1975-76	220	27	24	28	9	96	37
1976-77	301	21	104	63	76	92	66
1977-78	288	53	116	103	155	96	28
1978-79	303	61	93	101	176	99	57
1979-80	411	85	63	90	31	104	31

Sources: Eurostat, *Yearbooks of Agricultural Statistics;* Statistical Office of the European Communities.

3.10 Agricultural protection has also shown a long-term rising trend in Japan. Thus the extent by which domestic prices exceeded import prices rose between 1955-59 and 1975-79 from 46 to 256 per cent for grains, soya beans and sugar (as a group), and from 113 to 284 per cent for beef.[2] Calculations made by FAO[3] show definite rising trends for rice, wheat, sugar and beef. In the United States in recent years there has been a tendency towards greater protection for sugar and some livestock products. Further indications of increasing levels of protection in the late seventies in the United States, the EEC and Japan for some important products are provided by FAO estimates of the value of subsidies to producers. In the case of milk there was an increase over the five years 1976-80 from \$3.8 billion to \$8.1 billion in the United States, from \$15.6 billion to \$23.1 billion in the EEC, and from \$0.3 billion to \$0.5 billion in Japan.

3.11 Two commodities, sugar and beef, have been chosen as examples of the way in which growing agricultural protectionism is being applied.

Sugar

3.12 For many decades sugar production has been protected in the major developed market economies, particularly the EEC, Japan and the United States. The EEC adopted a common regime for sugar in July 1968, which supported sugar growers by providing them with higher prices than would under normal circumstances be available on the world market. This was achieved through variable import levies and export subsidies (restitutions). There was also a system of production quotas and an element of producer 'co-responsibility' in the form of a levy on a secondary part of the quota in order that producers should share the costs of surplus production.

3.13 The renewal of the regime in 1974 followed a period of world shortage, the enlargement of the Community and the agreement to import 1.3 million tonnes per annum from ACP countries under the Lomé Convention and from India at prices related to EEC levels. Under this second regime, which operated from 1975 to 1981, the Council of Ministers raised the maximum EEC production quota by a substantial amount, and lifted the support price of sugar to improve its profitability vis-a-vis other CAP products. Provision was also made for a Community stockpile. The margin by which the Community support price (increasing annually) exceeded world sugar prices rose from 9 per cent in 1975-76 to a peak of 176 per cent in 1978-79.

3.14 In this favourable policy environment, Community sugar production grew faster than world production, contributing 16.5 per cent of the latter in 1981-82 compared with 12.7 per cent in 1975-76. Consumption in the Community remained stagnant, and the level of self-sufficiency rose from 91.4 per cent in 1974-75 to 130 per cent in 1979-80. The only outlet for the excess production was the export market. In 1977 the Community changed from a net importer to a net exporter. It stayed outside the International Sugar Agreement, and its share of world exports increased from 8.3 per cent in 1976 to 18.3 per cent in 1981. This expansion was only made possible by export subsidies, and it aggravated the 1981 fall in world prices. The statistical picture of these changes is presented in Table 3.3.

TABLE 3.3
Sugar: World and EEC

	Production		**Exports** *a*		**Prices, white sugar** (ECU per tonne)	
	(million tonnes, raw value)					
	World	EEC	World	EEC	World	EEC
1975-76	80.2	10.2	22.8	1.9	293.5	304.5
1976-77	85.5	10.4	28.4	2.7	200.5	331.4
1977-78	91.7	12.2	25.0	3.6	137.6	396.9
1978-79	90.6	12.4	25.9	3.6	128.5	404.9
1979-80	84.2	13.0	26.7	4.3	327.3	410.9
1980-81	87.1	13.0	29.0	5.3	538.8	432.7
1981-82	97.0[b]	16.0[b]			270.0[b]	469.5

a Calendar years (1976-81).
b Estimate.
Sources: FAO; International Sugar Organization; EEC Commission.

3.15 Sugar (and isoglucose) will remain heavily supported in the EEC under the new five year regime that came into operation in July 1981. However, the 'co-responsibility' levies on producers have been increased, and EEC beet plantings are expected to be reduced by 7 per cent in 1982. Since the Community is likely to be holding stocks of over 3 million tonnes at the end of the season, the reduction in plantings will probably have little effect on free market supplies in 1983. The longer-run impact on the EEC and world markets of the larger degree of 'co-responsibility' imposed on producers remains to be seen.

3.16 The impact of the EEC sugar regime on developing countries is complex. While ACP suppliers benefit from preferential access at Community prices, their sales to the free market suffer reduced prices as a result of the Community's subsidised exports. The balance of effects is mainly positive for most ACP suppliers, as long as the preferential access continues and their production for the free market is small and has not been greatly impeded by artificially low world market prices.

3.17 The United States is the largest developed market importer of sugar. In 1980 it ratified the International Sugar Agreement and, owing to the rise in world prices, reduced its variable import duty and determined that a price support programme was not necessary for the 1980 and 1981 crops. But, at the end of 1981, as world prices declined again, a sugar loan programme was re-introduced for the period 1982-85 inclusive, with price support in the form of increased import duties, quotas and fees. The implications of this decision for the world sugar market are potentially serious. It is likely to reduce consumption in the United States, as higher prices encourage an even greater switch to sugar substitutes. Increased domestic production and reduced import demand from the largest free market importer will have depressing effects on world prices and particularly serious implications for Central American and Caribbean countries, some of whose economies depend substantially on sugar exports to the United States.

Beef

3.18 Under the EEC common beef and veal regulations which came into effect in July 1968, support prices have been set which have remained above world prices: some 90-100 per cent above since 1975-1976 (see Table 3.2). The main price support mechanisms are intervention buying at given prices, aid to private storage, a common customs duty, variable import levies, safeguard action (e.g. suspension of imports between July 1974 and March 1977), and refunds on EEC exports outside the Community. In the framework of this highly protective regime, EEC beef production has increased. Since the period of suspension, imports have not recovered to earlier levels, but exports have increased. In 1979, the EEC became a marginal net exporter of bovine meat, and a major net exporter in 1980 and 1981. EEC gross exports increased from 5 per cent of world exports in 1977 and 1978, to 21 per cent in 1980, second only to those of Australia. EEC subsidised exports are going to the USSR, Eastern Europe and a number of developing countries and appear to have displaced exports from Argentina and Uruguay, as well as from Australia and New Zealand. Their large volume must certainly have contributed to the weakness of international beef prices in 1981 and 1982. EEC imports are now practically confined to the amounts specified in concessionary agreements negotiated under GATT or with particular countries, e.g. Yugoslavia, and four African countries, Botswana, Kenya, Madagascar and Swaziland, under the Lomé Convention.

3.19 In the United States and Canada quantitative restrictions are the major method of regulating the market. The United States Meat Import Act of 1964 introduced import quotas on beef and veal (and certain other meats), and these were linked in 1979 to a counter-cyclical formula. However, voluntary export restraints (VERs) negotiated with major suppliers have avoided the need to impose and administer formal import quotas. Both the United States and Canada have committed themselves to maintain certain minimum import levels. The beef market in Japan is heavily protected by customs duties (at 25 per cent), variable levies, quotas, and cumbersome administrative import procedures.

National Agricultural Policies

3.20 Various reasons, including the so-called inherent value of an agrarian society, the security of food supplies, national self-sufficiency or the attainment of environmental objectives, have been advanced in attempts to justify agricultural protectionism. The key issues, however, are politico-economic and concern the stabilisation and improvement of farm incomes and the assurance of preference for national producers. Once agricultural protection gathers momentum in a developed country, there are powerful forces working for its continuance and enhancement.

3.21 From the standpoint of world trade, the most unfortunate feature of developed countries' agricultural protection policies is the almost universal reliance upon support prices to stabilise domestic markets and farmers' incomes. Rigid support prices (more often than not without supply management) are the most damaging to world markets of the various possible approaches for ensuring protection. The setting of the level of support prices tends to become a decision within the political process in which consumers and importers have generally proved no match for the organised pressures of farmers. As a consequence, the prevailing levels of agricultural protection, illustrated in the earlier tables, are usually very high. At such levels conventional tariffs are unable to provide sufficient border regulation of imports. Hence the resort to measures of more direct border control, such as variable import levies, import quotas and VERs, supplemented by the disposal of surpluses through export subsidies which have for long distorted and frustrated agricultural production, trade and development in the world.

3.22 Alternatives are available. The fundamental requirement is to admit that national agricultural policies are at the root of agricultural trade problems. There is reason to suppose that the present levels of protection are often excessive and higher than necessary to achieve desired objectives. Even without questioning national objectives, there is often room for reconsideration of the degree of protection required, and of the nature of the measures to be employed to achieve it.

3.23 At the national policy level the highest priority should attach to the promotion of farm-income stabilisation and support measures that have a minimum disruptive effect on trade. Alternative forms of agricultural support, having less adverse effects on the trade of other countries, include:

(i) Direct income supplements to groups of farmers disadvantaged, for example, by the smallness of their farms, unfavourable environmental factors or abnormal climatic conditions.
(ii) Direct payments to farmers to supplement the incomes derived from sales in the open market.
(iii) Subsidies on the cost of key production inputs purchased by farmers.
(iv) The fixing of farm prices based on defined conditions of efficiency and productivity — this measure could be combined with those already listed, viz. direct income supplements and subsidised inputs.
(v) Farm price support schemes limited to a maximum volume of output or linked with other measures of supply management.

Where agricultural support is necessary, forms should be chosen which, in achieving the aims of the country imposing them, occasion the least damage to exporters.

3.24 The possibility of using such measures is well known in developed countries and indeed their economic advantages are often recognised. Some have political drawbacks in that their cost is obvious in national budgets, whereas high administered prices are paid for in the shops by consumers. For these alternative policy measures to be considered seriously a change in political attitudes needs to be brought about. As and when progress is made with the adoption of alternative means of implementing the objectives of agricultural policies, it should become possible to initiate changes towards less trade-restrictive measures at the border, as discussed in the next chapter.

3.25 Such basic progress towards containing and gradually rolling back the still advancing wave of agricultural protectionism in the world could be facilitated by the initiation of a multilateral review of the international impact of national agricultural policies and measures. Such a review must include the participation of all the major developed countries. It would be a major step ahead if the recent OECD findings on this subject[4] were to lead to the establishment of specific procedures for such a review. A desirable objective would be to develop a multilaterally agreed code of principles on agricultural support measures, which would facilitate progress towards greater trade liberalisation.

Implications for International Machinery

3.26 As long as national producer prices for the main agricultural commodities are so widely divergent, any general liberalisation of agricultural trade seems to be out of the question. The most that can be hoped for immediately, while more basic progress is made in national policies, is a standstill on current protection levels, and the negotiation of increments of access, reductions of surpluses and some international agreement on limits to export subsidies.

3.27 Such a breathing space would make it possible to envisage the negotiation of usable interpretations of obscure concepts in the GATT provisions on subsidies, designed to bring this trade-devastating practice more into the open and under more effective international surveillance. In addition, to strengthen the relevance of GATT to agricultural trade problems, serious efforts are needed to bring within its purview the most restrictive trade practices currently in vogue, namely variable import levies and VERs. These devices currently escape the surveillance of GATT.

Agricultural Raw Materials

3.28 Cotton, wool, jute, hard fibres, rubber, and hides and skins are the main items in this group. Apart from wool and hides and, to a lesser extent, cotton and rubber, they are chiefly products of low income, tropical agriculture. The main markets for all are in the industrial countries which, with some exceptions (notably the United States and where there are synthetic substitutes), cannot produce these products. As raw materials for further industrial processing they are not greatly subject to tariffs in importing countries. One of the main problems facing developing country exporters of agricultural raw materials is the escalation of tariffs imposed by the developed countries on exports in processed forms. This escalation, designed to protect the processing industries in the importing countries, is the subject of the next section of this chapter.

Tropical Non-Competing Agricultural Commodities

3.29 Exporters of these products, which include coffee, cocoa, tea, bananas and spices, are almost entirely developing countries, and importers are predominantly developed countries. A large proportion of the trade in raw or relatively unprocessed form has benefited from gradual liberalisation measures in developed importing countries. These commodities are among the agricultural products for which the European Community grants preferential access to the 63 ACP countries; they also figure in the commodities granted GSP treatment by individual developed countries. Nevertheless a number of barriers remain which are serious handicaps for individual exporting countries with a high degree of dependence on exports of these products. These barriers take the form mainly of import duties, product-specific revenue taxes and in some cases quantitative restrictions.

3.30 Import duties exist, apart from those for revenue purposes, to protect preferred exporters or, when on the processed product, to afford protection to domestic processors. For tropical beverages the effect of duties is significant with respect to imports of coffee. For example, although nearly 40 per cent of all coffee imports by the EEC are from ACP countries and therefore free of duty, this still leaves the greater part of EEC coffee imports subject to duties. The Community imposes duties on all cocoa and cocoa products, but over 80 per cent of imports come in duty-free under the Lomė Convention. For both coffee and cocoa, the main significance of duties appears to be to maintain an advantage for ACP countries over other developing suppliers. Duties are not generally significant for bulk tea. In the case of bananas more than two-thirds of world imports of fresh fruit are duty-free. Supplies to the EEC from ACP countries and dependent territories are duty-free, and Germany (F.R.) also has a large duty-free quota; nevertheless, about a third of European Community imports (one-eighth of world exports) remain dutiable. Even after relaxations obtained in the Tokyo Round, import duties on spices remain significant in certain areas.

3.31 Although the low price elasticity of demand for beverages tempers the effects of internal taxes as obstacles to consumption, the production-specific taxes imposed on tea and coffee in Germany (F.R.) are sufficiently high to be of significance. Some EEC members have undertaken not to increase such taxes. The internal tax on bananas in Italy is levied at a particularly high rate.

3.32 Few quantitative restrictions exist on imports of tea, coffee and cocoa. Import licensing of fresh bananas is applied in France, Italy and the United Kingdom, the main purpose being to provide sheltered markets for preferred suppliers. The complexity of health standards and quality regulations is a handicap to some trades, especially that in spices.

3.33 The developed centrally planned economies take only a very modest proportion of world exports of tropical products, in relation to their population and income levels. Their imports are mostly subject to duties but the main barriers are associated with state-trading practices, foreign currency allocations and domestic pricing policies. The opening up of the markets of these countries would have a significant effect in enlarging world import demand for tropical products.

3.34 The improvements of recent years in liberalising trade in these products should be completed by the removal of the remaining restrictions, both tariff and non-tariff. While the abolition of tariffs on these products may present problems with regard to the loss of preferences, notably those of the ACP countries, the gradual reduction and rationalisation of differential barriers should be accepted as one of the aims of global trade liberalisation. Towards this end there is scope for initiatives from developing as well as developed countries; it should prove possible to negotiate compensatory concessions in cases of loss of preferences.

3.35 The proportion of national revenue of developed countries that is contributed by the remaining duties and taxes specifically on tropical products is so small that their total elimination, in the interests of facilitating the development of the developing exporting countries, can be regarded as a reasonable objective in the developed countries concerned.

Fuels and Minerals

3.36 The primary forms of major fuels and minerals are virtually free of tariff barriers, though limited degrees of tariff protection are accorded to lead, zinc and nickel in the United States. For some fuels and minerals, tariffs tend to escalate with processing, especially in the case of petroleum products, but such barriers to trade as exist are mainly in the form of non-tariff measures.

II – Processed Products

3.37 In this Report, processed products are considered separately from other manufactures because of the special problems posed for developing countries (and other primary producers) by the protection of industrial country processing industries[5].

Tariffs

3.38 Despite the substantial lowering of tariffs by several rounds of multilateral trade negotiations, processing is an economic activity still significantly protected by tariffs. Many primary products face zero or low tariffs. Higher nominal tariffs tend to apply to the processed forms of these products and this means effective rates of protection are higher still, sometimes over 100 per cent, since the higher tariffs fall largely on the value added in processing.

3.39 Protection accorded to domestic processing industries by this tariff 'escalation' remains a severe trade policy problem for developing countries and those developed countries such as Australia which depend heavily on raw material production. The problem of tariff escalation has been given inadequate attention in multilateral trade negotiations. Although in the Tokyo Round increased attention was given to tropical products, and while this meant that the absolute differences in tariffs on products at different stages in the processing chain were in many cases reduced, the degree of effective protection for processing frequently remained unchanged because percentage reductions were greater for products at the lower stages[6].

3.40 Data on effective protection are sparse. A study based on post-Tokyo nominal tariffs and recent UK input-output co-efficients shows significant rates of effective protection for the following products in the EEC: 70, 53 and 75 per cent for cocoa liquor, butter and powder, respectively; 28 and 48 per cent for processed coconut oil (for industrial and edible use); and 6 and 21 per cent for truck tyres, and canvas and rubber footwear[7]. More comprehensive estimates based on pre-Tokyo Round m.f.n. tariffs are available. Since the situation has not changed significantly since then, these data remain indicative of the high levels of effective protection of processing activities in developed countries. They are shown in Table 3.4 for products of special interest to developing countries.

3.41 A disturbing aspect of the incidence of tariff escalation is that effective protection tends to be higher in industries in which developing countries are more likely to have comparative advantage. The highest barriers are in industries based on vegetable oils and oilseeds, cocoa, coffee, fibres, hides and skins, and timber.

3.42 The high levels of protection indicated by Table 3.4 are alleviated to some extent by the preferential arrangements which are discussed in Chapter 6. In this connection, the Lomé Convention is of great significance since it provides duty-free and quota-free entry for nearly all processed products exported by the ACP. The GSP is much less important in alleviating protection. GSP rates do not necessarily lead to lower effective rates of protection. In the EEC, in the case of refined coconut oils, effective rates are higher under the GSP than under the m.f.n. Some important processed exports from developing countries are not included, e.g. plywood in the United States and Japanese schemes and refined palm

TABLE 3.4

Comparison of Nominal and Effective Protection for Selected Processed Products — Pre-Tokyo Round m.f.n. rates

	EEC		Japan		United States	
	Nominal	Effective	Nominal	Effective	Nominal	Effective
	%		%		%	
Meat products	19.5	32.6	17.9	69.1	5.9	10.3
Roasted coffee	15.2	35.7	35.0	137.1	0.0	0.0
Cocoa powder and butter	13.6	76.0	15.0	125.0	2.6	22.0
Coconut oil	11.5	132.9	9.0	49.2	9.4	16.3
Palm kernel oil	10.5	141.5	7.2	49.2	3.8	29.2
Jute fabrics	19.6	53.3	20.0	54.4	0.0	-0.6
Wood products	8.7	16.3	11.5	23.2	6.7	13.6
Leather	4.8	12.3	11.6	34.7	4.7	12.0

Source: UNCTAD, *The Processing Before Export of Primary Commodities: Areas for Further International Co-operation,* May 1979.

oil in the EEC scheme. But even where products are included, the uncertainty introduced by the unilateral and non-contractual nature of the concessions, and by the limitations imposed through the ceilings and tariff quotas of the EEC and Japanese schemes and the 'competitive need' criteria of the United States scheme, considerably reduces the significance of the GSP.

3.43 In the case of mineral products, tariffs tend to escalate with the degree of processing. However, levels of effective protection tend on the whole not to be as severe a problem as in the case of agricultural products.

Non-Tariff Measures

3.44 Non-tariff measures (NTMs), such as quantitative import restrictions, licensing procedures, public and quasi-public procurement, and quality standards and packaging regulations, on imports from developing countries, are usually more severe on processed products than on primary products[8]. Trade losses due to these measures may be considerable. Moreover, NTMs are applied most frequently to the products in which poor countries are developing a comparative advantage.

3.45 Among the most costly NTMs to the developing countries are those in the fibre sector, notably in the MFA which is discussed in the next section; these accentuate the protection provided by tariff escalation.

Outside the MFA, sisal products are restricted by VERs. Japan uses NTMs to protect local sugar refiners and the variable levies under the EEC sugar regime thwart the import of processed fruit and chocolate with significant sugar content. Deficiency payments and production aids given to agricultural products deter imports of processed products, as domestic processing industries benefit from the availability of cheap raw materials. Mineral processing is also to some extent affected by NTMs, e.g. minimum import prices.

Potential for Increased Processing

3.46 Trade barriers against the export of processed products from developing countries reinforce historical and other factors, e.g. scarcity of capital, management, skills and technology, which have militated against developing countries undertaking much processing of domestic raw materials.

3.47 In spite of these problems, developing countries have made some headway in establishing processing industries. For a number of products, the proportion of exports sold in raw or near-raw form has declined significantly. Some examples are cocoa, cotton, vegetable oilseeds and oil, fibres, hides and skins, wood products and iron. Greater progress could be made if protection were relaxed. There are many industries where because of factors such as labour intensity, high transportation costs for the raw product, high energy requirements and environmental costs, comparative advantage already exists in developing countries; the removal of tariff and non-tariff barriers would greatly facilitate their development in these countries. An indication of the impact of protection on trade patterns is provided by the case of the coconut oil industry; in the EEC, because of protection to crushers, the import of copra is still significant, whereas in the United States, which offers no such protection, imports are wholly in the form of oil.

3.48 Several studies have indicated high potential for increased export earnings by developing countries through expanded processing of their raw materials and foodstuffs (see, e.g., paragraph 4.16). According to one study, if developing countries undertook additional processing in seven major mineral industries only up to the metal bar stage, they could earn from exports an additional gross $44 billion per annum[9].

3.49 The relaxation of protection could have a significant long-run impact on development and could greatly benefit those low-income raw material producing countries that are not yet in a position to export labour intensive manufactures. Trade barriers which impede processing activities in developing countries should be completely removed. As a start, consideration should be given to the elimination of tariff escalation on processed products for which raw materials emanate largely from the developing countries.

III – Manufactures

3.50 The success of the GATT in reducing industrial tariffs has largely removed the tariff weapon from the hands of the developed countries, which have recently become increasingly concerned to protect certain manufacturing sectors from a surge of exports from Japan and a number of rapidly advancing developing countries. The developed countries are therefore resorting to the same wide range of NTMs to protect important sectors of their manufacturing as they introduced in earlier decades to protect agriculture.

Tariffs

3.51 The reductions in developed country tariffs on manufactures, though wide-ranging, have not covered all products; nor have they been uniform in depth, and by 1 January 1987, after conclusion of the Tokyo Round reductions, the m.f.n. rates in the nine major markets of these countries[10] will still average 10 per cent of more for textiles and clothing and for finished manufactures in the leather, rubber, footwear and travel goods group of products (see Table 3.5). These two product groups contain goods in whose production the developing countries' comparative advantage is among the greatest, and the relatively less steep reduction in the Tokyo Round of m.f.n. rates on manufactures 'of interest to developing countries'[11] was a source of dissatisfaction to these countries, which were well aware of the relatively higher base rates from which the cuts on their products are being made.

3.52 As a result, by the time the Tokyo Round cuts have been completed, the differential between the m.f.n. tariff on 'developing country manufactures' (an average of 7.9 per cent in the nine major markets of the developed countries) and that on all manufactures (an average of 5.8 per cent) will have increased. Although the effects of this on the developing countries are somewhat offset by the operation of the Generalized System of Preferences, it is not a trend which is consistent with the spirit of the "special and more favourable treatment" that was to be accorded to developing countries. In future GATT multilateral trade negotiations, tariffs on manufactures 'of interest to developing countries' should be cut more heavily than those on other manufactures.

TABLE 3.5
Major Developed Countries: m.f.n. Tariffs *a*
(percentages)

Product		Depth of cut	Post-Tokyo Round average m.f.n. rates *b*
Textiles and clothing	— total *c*	19	11.8
	— semi-manufactures	22	11.5
	— finished manufactures	19	16.7
Leather, rubber, footwear, travel goods	— total *c*	14	6.3
	— semi-manufactures	35	4.4
	— finished manufactures	11	10.2
Electrical machinery, equipment, goods	— total	34	6.1
Chemicals	— total	38	5.3
	— semi-manufactures	36	5.0
	— finished manufactures	43	6.0
Transport equipment	— total	36	5.0
Non-electric machinery	— total	47	4.1
Base metals	— total *c*	31	2.7
	— semi-manufactures	26	3.2
	— finished manufactures	37	5.9
Wood, pulp, paper, furniture	— total *c*	40	1.7
	— semi-manufactures	38	1.9
	— finished manufactures	41	4.2
Manufactures, n.e.s.	— total	42	5.5

a Countries covered are Austria, Canada, EEC, Finland, Japan, Norway, Sweden, Switzerland and United States.
b To become fully effective not later than 1 January 1987.
c Totals comprise raw materials as well as semi-manufactures and finished manufactures.
Source: GATT, *The Tokyo Round of Multilateral Trade Negotiations*, Vol. II, January 1980.

Non-tariff Measures

3.53 The relative lack of importance of tariffs to trade in most manufacturing sectors has not, however, meant that there has been a commensurate decline in the level of trade barriers. For, as was shown in the previous chapter, there has been a considerable extension of NTMs applying to trade in manufactures; in several major sectors there has also been a marked increase in the severity of these measures, which include 'voluntary export restraints' (VERs) and 'orderly marketing arrangements' (OMAs). Although numerical precision is difficult, one source[12] put the proportion of OECD imports of all manufactures controlled by NTMs at 17 per cent in 1980 compared with only 4 per cent in 1974[13]. For manufactures imported by OECD countries from developing countries the proportion in 1979 was estimated at 30 per cent, compared with only 11 per cent for those imported from other OECD members, a reflection principally of the differing importance to the two groups of countries of trade in textiles and clothing.

3.54 The effects of NTMs have been most marked, both in extent and in severity, for textiles and clothing. Estimates based on quota premia suggest that the tariff equivalents of the quotas in this sector are often considerably greater than the tariffs themselves[14]. Other sectors in which NTMs are important (and in some cases crucial) include steel, footwear, consumer electrical and electronics goods (particularly televisions and audio equipment), motor vehicles, ships and chemicals.

3.55 As indicated in Chapter 2, these NTMs, except for the MFA, are outside the purview of the GATT. Thus, although some progress was made in the Tokyo Round on negotiating codes on NTMs, these did not include disciplines covering VERs and OMAs. It is imperative that further progress be now made in this area, and that VERs, OMAs and other unofficial quantitative restraints, together with the MFA, are brought under greater multilateral control and discipline within improved provisions of Article XIX and of the appropriate codes. It is particularly important that clear indications should be given of the circumstances in which protective action under Article XIX and the codes is justifiable and that such action be specified in scope and time-bound. By such means the growing volume of trade in manufactures which is officially or unofficially administered should be brought under international surveillance and submitted to internationally agreed rules and procedures.

3.56 In the remainder of this section we briefly set out some of the main characteristics of protection in the most important manufacturing sectors involved.

Textiles and Clothing

3.57 Trade in this sector remains highly protected, particularly with respect to imports into developed from developing countries. Reductions in tariffs agreed at the Tokyo Round were well below the overall average for manufactures and the resultant rates are well above average, particularly for clothing[15]. Even so, the quotas operated by developed countries under the MFA since the beginning of 1974 were tightened after the Arrangement was extended by protocol in 1977. Whereas in MFA I (1974-77), the norm for quota increases in restrained products (i.e. products deemed to be causing 'market disruption') was "not less than 6 per cent" annually, in MFA II (1978-81), the clause on "jointly agreed reasonable departures from particular elements in particular cases" permitted lower rates of growth which were, in effect, imposed on exporting countries by importing countries through a series of bilateral negotiations. This was quite contrary to the professed object of the original MFA, one article of which includes a clause enjoining the provision of increased access to participating countries' markets for textile products from developing countries (see paragraph 3.66 below).

3.58 Under the MFA II, the EEC transformed the overall 6 per cent limit on restrained products into a system dividing all products from 'low-cost' suppliers into groups according to their degree of 'sensitivity'. For products in the most 'sensitive' group, accounting for more than three-fifths of EEC imports from these suppliers, the bilaterally agreed quotas for 1977 were cut back severely for Hong Kong, Rep. of Korea and Taiwan,[16] the three largest 'low-cost' suppliers, and thereafter were allowed to rise only by between 0.3 and 4.1 per cent annually. Higher rates were allowed for other groups, especially those containing products in which 'low-cost' suppliers showed little or no comparative advantage and in which their market penetration was consequently low, so that the EEC could claim that it had provided for overall growth of 6 per cent. But there was no significant flexibility for switching quotas between groups or between markets. At least 98 per cent of EEC imports of 'low-cost' textiles and clothing are now covered by quotas.

3.59 The United States in 1978 negotiated bilateral agreements with the three biggest developing country suppliers — Hong Kong, Taiwan and Rep. of Korea — which generally allowed quotas to increase at rates well below the 6 per cent MFA norm, with zero growth in some cases. Originally scheduled to last for five years, the agreements were renegotiated in 1979 and 1980, when by imposing a reduction in flexibility and a cut-back on previously unfilled quotas, the American Administration (under industry pressure) reduced effective market access quite considerably. By the end of

1979, about 85 per cent of US imports of textiles and clothing were controlled through quotas.

3.60 Other developed countries also imposed stricter controls by means of bilateral agreements, and all except Japan and Switzerland now apply quotas or almost prohibitive tariffs. But a country does not have to be a signatory of the MFA to protect its textiles and clothing industry effectively. In Australia, for example, the tariff-quota system in operation was estimated to have provided in 1980/81 a nominal rate of protection of 24 per cent for textiles and 60 per cent for clothing and footwear; the average effective rate in 1977/78 was estimated at 48 per cent for textiles and 140 per cent for clothing and footwear[17].

3.61 MFA III (January 1982-July 1986) contains some elements which are less restrictive than before and others which are capable of being more so. On the one hand, in the list of understandings set out as part of the conclusions of the GATT Textiles Committee meetings (annexed to and an integral part of the extending protocol), there is no reference to "reasonable departures" from MFA norms, while there is reference to strengthening the definition of "market disruption" and of providing specific factual information on its existence or real risk before safeguard measures can be invoked. On the other hand, there is a new provision for cutting back the quotas of 'dominant' suppliers of particular products under "mutually acceptable arrangements with regard to flexibility"; there is also a new 'anti-surge' mechanism to deal with difficulties arising from sharp and substantial increases in imports which previously were consistently below restraint levels.[18]

3.62 Any assessment of the extent of protection provided by the new Arrangement must take full account of the ensuing bilateral agreements. It is still too early to come to firm conclusions on these, but from recent negotiations between the EEC and United States and major Asian suppliers, and from the statements made by ministers of OECD countries, the portents do not look promising from the standpoint of trade liberalisation.

3.63 EEC Trade Ministers provided the European Commission with a mandate which allowed for an annual increase in Community imports from MFA signatories, centrally planned economies and preferential countries of a mere one per cent for products in the most 'sensitive' group and for an average of only three per cent for those in the next two groups; in addition, Indian handloom and craft products are to be controlled by quota despite their exclusion from the MFA. Quotas for 'dominant' suppliers — Hong Kong, Rep. of Korea, Taiwan and Macao — will be cut by 10 per cent over the four years 1982-85, with a larger cut in the first half. New agreements by the United States with 'dominant' suppliers have also been very restrictive. That with Hong Kong, for example, provides for annual growth in quotas of a mere 0.5-2.0 per cent; similar agreements have been made with Rep. of Korea and Taiwan.

3.64 Overall, therefore, exports of the group of products which have provided developing countries with their earliest experience of manufacturing are still very strictly regulated by an arrangement, administered by GATT, whose signatories account for the bulk of world trade in the products concerned.[19] The experience of developing countries with the MFA and its related bilaterals — with expanding country and product coverage, diminishing growth provisions, increasing complexity and rigidity, and apparent permanence — is contributing considerably to their growing disillusion with the international trading system as presently constituted and with the growth prospects of outward-oriented development policies.

3.65 It is not difficult for the exporting countries concerned to contrast some of the professed objectives of the MFA with the reality of its achievement. Various aspects can be cited, among which the following are merely examples. First, one may contrast the provision that, save in exceptional circumstances, the annual increase in quotas for products under the restraint should not be less than 6 per cent, with European Commission data showing that during 1977-80, the volume of EEC imports of MFA products from countries with which it had negotiated bilateral agreements rose on average by only 2.5 per cent annually (and by a mere 0.8 per cent for the most 'sensitive' group of products).[20] Not that the EEC's growth of imports was the lowest: in the United States, where protection was even more severe, imports of textiles and clothing from developing countries had risen on average by only 3.7 per cent annually during the 1970s and fell 9 per cent in the last year of the decade. Secondly, one may contrast the MFA's stated aim to provide scope for a greater share for developing countries in world trade in these products, with GATT data showing that this share has stagnated at between 25 and 26 per cent since 1977 and that in some developed countries the proportion of imports of textiles and clothing from developing countries has fallen. And thirdly, one can contrast the clause in the MFA which states that "restraints on exports from participating countries . . . . should normally be avoided if the exports from such countries represent a small percentage of the total imports of textiles covered by this Arrangement of the importing country concerned", with quotas imposed by the EEC, Canada, Sweden, Norway and other countries on imports from developing countries, usually the poorer ones, which supply well under one per cent of the total for the product concerned.

3.66 On the other hand, it is not easy to explain how such controls have been developed under an Arrangement whose "basic objectives shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalisation of world trade in textile products . . . ." and in which it is stipulated that "actions taken under this Arrangement should . . . . provide increased access to their markets for textile products from developing countries". It is perhaps even more difficult to explain how as recently as last December, in the conclusions adopted by the GATT Textiles Committee, the first of these two objectives was reiterated, although admittedly there was no mention of the second.

3.67 What is required as a start in the textiles/clothing sector is a return to multilateralism, and for the often relatively unexceptionable provisions of the MFA to be the ones which really determine market access, rather than simply providing a framework for highly protectionist bilateral agreements imposed by powerful importing countries on less powerful and often weak exporting countries. For this to occur it is necessary that the MFA should be brought within the rules and procedures of an improved Article XIX on the lines set out in paragraph 3.55 above and elaborated in Chapter 7. Within the context of such improved safeguard provisions, developed countries should undertake a phased liberalisation of imports of textiles and clothing from developing countries. This would require, in the early stages, that developed countries increase the annual growth in quotas and eliminate them altogether for small suppliers and new entrants (as enjoined by the MFA); they should then abolish all quotas on these products (even if this meant a strictly time-bound increase in tariffs); finally, within a specified time-bound period, they should reduce their m.f.n. duties to a level much nearer the average for all manufactures.

Footwear

3.68 Footwear and other segments of leather manufacturing usually employ labour-intensive methods of production and are thus generally considered 'sensitive' from a trade point of view. Tariffs are therefore high (averaging 13.2 per cent on an import-weighted basis for footwear and travel goods in the major developed countries[21]) and were not normally reduced under the Tokyo Round. Moreover, GSP concessions are minimal.

3.69 Reflecting a sharp increase in imports and in market penetration, NTMs on footwear have been applied by most major developed countries: the EEC has negotiated VERs with Rep. of Korea and Taiwan under which it regulates imports of non-leather footwear into certain member states; the United States has operated OMAs on footwear from the same two countries, although these expired in mid-1981 and were extended only in the case of Taiwan (excluding athletic footwear); Canada has imposed quotas on footwear since 1977 under GATT Article XIX; Australia has a quota-determined licensing system for most types of footwear; Japan operates strict quotas in addition to its high tariffs. Generally, however, the coverage and intensity of the restrictions is far less than for textiles and clothing, and though the European Federation of Footwear Manufacturers has continued to seek an MFA type of arrangement, increased protection is being resisted.

3.71 The United States negotiated OMAs for colour television sets with Rep. of Korea and Taiwan for seventeen months from the beginning of 1979 and renewed them for two years from July 1980, although the combined quota of the two countries was increased by 36 per cent. The US tariff on citizens' band radios, raised from 6 to 21 per cent in 1978 as a safeguard, was progressively reduced to 15 per cent in 1980 and reverted to its original level in 1981. In the EEC, television and radio sets and parts have not been liberalised and are still liable to quantitative national restrictions. On imports of black and white televisions, for example, France and Italy have maintained quotas while those instituted by the United Kingdom on Rep. of Korea and Taiwan in 1977 under Article XIX of the GATT have since been converted into VERs. Imports of audio equipment have also been affected by NTMs (principally VERs) and those of colour televisions from developing countries are likely to be drawn into the net once the current patent licences lose their protective effect.[22] Efforts by EEC manufacturers to regulate imports at a Community level are continuing; some products (e.g. colour televisions from Japan) have been placed under statistical surveillance and an anti-dumping investigation has been undertaken on imports of black and white televisions from Rep. of Korea. All this is in addition to relatively high tariffs (14 per cent on radio and television sets, for example) which were not reduced under the Tokyo Round; moreover, because these products are treated as 'sensitive', they have been granted few concessions under the GSP. Television and radio components, too, are deemed 'sensitive' (as are calculators) and some are accorded tariff quotas and quantitative restrictions.

Electrical and Electronics Goods

3.70 Exports of a wide range of electrical and electronics components and finished products have constituted one of the most buoyant sources of foreign exchange for some developing countries in recent years. Based on labour-intensive assembly processes in low cost locations and using relatively mature and stable technologies available under licence from transnational corporations, the industry has 'internationalised' itself under sub-contracting and other intra-firm arrangements to such an extent that widespread protectionist pressures have been resisted despite the rapid growth of developed country imports from developing countries. Certain problems have nevertheless arisen and some degree of 'new' protection by means of NTMs has occurred.

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Metal Products

3.72 Among the large number of simple metal products entering international trade, protectionism has so far affected only a few items of importance to developing countries. Tariffs on cutlery are well above average (17-19 per cent in the EEC and approaching 80 per cent for some items in the United States, for instance) and were usually exempted from cuts under the Tokyo Round, although the industry never acquired fully 'sensitive' treatment under the GSP. In addition VERs are operated on an unofficial industry-to-industry basis by several importing countries, including the United Kingdom, Germany (F.R.), Denmark, Norway and the Benelux countries, with various exporting countries, notably Rep. of Korea. In practice, however, these have not restricted trade to any great extent. Another item of importance has been industrial fasteners (nuts, bolts, etc), where Indian and Korean exports to the United States were the subject of countervailing duty action in 1980.

Steel

3.73 The continued growth in steel-making capacity and decline in developed countries' demand after 1974, combined with an increase in capacity in certain newly industrialising countries (NICs) and centrally planned economies, have created substantial excess capacity and weak markets. In an effort to overcome these problems both the United States and EEC have instituted restructuring programmes whose external elements have involved a number of NTMs. However, the current situation remains serious in both markets and new trading conflicts have recently developed between their steel producers.

3.74 In the United States the 'trigger price mechanism' introduced in February 1978 to expedite investigations into subsidised or dumped imports has been suspended twice as a result of independently filed anti-dumping actions by domestic steel producers. Under the mechanism, which covered most carbon steel products, imports at prices below periodically adjusted floor levels based on the production costs of the most efficient steel manufacturer (deemed to be Japan) automatically led to anti-dumping investigations unless granted pre-clearance.[23] The mechanism was suspended in March 1980 and renewed in October of that year, strengthened by the introduction of an anti-surge provision which operated when domestic capacity utilisation fell below 87 per cent and which could lead to the imposition of anti-dumping or countervailing duties. A similar mechanism was instituted for special (alloy) steels, whereby anti-dumping investigations were conducted if import penetration exceeded the average for the previous ten years.

3.75 Although these measures had some effect on the NICs, particularly Brazil and Rep. of Korea, they were used mainly against other developed countries, especially the EEC. It was as a result of a barrage of anti-subsidy and anti-dumping petitions from the major US steel producers against imports from the EEC that the mechanism was suspended again in January 1982. After negotiations between the parties had broken down on the issue of market shares, the US Department of Commerce in June imposed countervailing duties against steel from seven European countries, Brazil and South Africa. The calculation of the subsidies, which has led to duties ranging from 0.5 to over 40 per cent of the price of the imported steel, is being disputed by the EEC.

3.76 In the EEC all intra- and extra-Community trade in iron and steel is now regulated, and about three-quarters of production is also controlled by quotas, which were recently extended to June 1983. As part of the Davignon Plan for reconstructing the industry, VERs were concluded with more than a dozen exporting countries[24] and provide for 'quantitative targets' (bilateral quotas) based on 'traditional trade flows' and consistent with the maintenance of stable domestic prices. In consonance with domestic market conditions, quotas in 1981 were set at around an eighth below imports in 1980, and though there has been some increase in 1982, no carry-over is being allowed and the total remains below the 1980 out-turn. For those imports not covered by bilateral agreements, provisional anti-dumping duties may be applied whenever delivered prices are below the Community's basic prices (set in relation to the costs of production in the most efficient producer, usually deemed to be Japan).

Wood Products

3.77 There is quite substantial protection of this sector by a number of developed countries. Plywood and veneers, for example, are considered 'sensitive' by several members of the EEC and where the GSP is applied it has quota limitations; other developed countries also protect this industry (Australian imports of thick plywood are under quota, for instance). The main developing countries affected are Rep. of Korea, Taiwan, Malaysia, Philippines and Brazil. The last of these has also faced access problems in the case of its rapidly expanding exports of pulpwood for the manufacture of paper — itself a highly 'sensitive' item.

Other Sectors

3.78 Protectionism exists in various other manufacturing sectors, but in general it has not yet had a particularly significant impact on developing country exports. In motor vehicles, for example, VERs have been instituted by several developed countries, but so far they have been directed at other developed countries, almost entirely Japan. So long as developing country car and component exports are 'regulated' by transnational corporations' intra-industry or intra-firm reciprocal trade arrangements, direct forms of protection may be unlikely, but when 'national' companies start to export 'indigenous' vehicles in large numbers the situations could alter.

3.79 Another sector where most of the friction in trade so far has occurred between developed countries is chemicals, where quotas have been applied by the EEC on certain petrochemicals from the United States. Difficulties may arise between developed and developing countries in the future, however, possibly quite soon between, say, Taiwan or Rep. of Korea and Japan, and later between OPEC and developed countries in general.

3.80 Shipbuilding is a rather different case, in that protectionism by developed countries takes the form not of border-controls but of subsidies by way of low cost export credits, tax exemptions, government procurement policies, etc. Although subsidies have on occasions been high, the degree of protection thus afforded has in general been reasonably moderate, and several developing countries, notably Rep. of Korea, Brazil and Taiwan, have increased their share of the world market considerably.

3.81 Finally, developed country tariffs have been relatively high on imports of products from a number of miscellaneous light manufacturing industries in which developing countries have gained a comparative advantage, principally toys and sports goods, but also including a whole range of personal items like smoking pipes, musical instruments and umbrellas. However, these duties do not seem to have had much dampening effect on exports and market penetration; moreover, the items are not usually considered 'sensitive' and thus NTMs, although not unheard of, are rare.[25] Being manufactured by relatively insignificant industries in developed countries, the products concerned seem unlikely to face substantial barriers in future.

Overall Position

3.82 From the above brief survey it is possible to reach a number of conclusions. Chief among these is that many of the new protectionist measures against manufactures have discriminated against developing countries. For not only has it been on the products in which these countries are primarily interested that most of the new quantitative restrictions have been imposed, but it is also the developing countries (especially the poorer ones) which have suffered most from the increase in disputes resulting from the imprecise nature of the GATT codes and other instruments (including technical standards). The most important restrictions, as far as developing countries are concerned, have been on textiles and clothing; exports of this group of products are so significant for these countries, and increasingly so for the poorer and smaller ones, that they regard developments under the umbrella of the MFA as a barometer of developed country attitudes towards protectionism in general. Their experience in this respect has been discouraging, particularly since 1977. Worrying signs of strengthening protectionist pressures also exist in certain other sectors, notably steel and motor vehicles, which though not yet of widespread import to developing countries have important implications for their development prospects.

3.83 On the other hand, in certain other sectors again, such as footwear and possibly consumer electrical and electronics goods, protectionism does not appear to have gathered pace significantly in recent years. There are in addition many manufactures, notably in various branches of the engineering sector, in which developed country tariff protection is relatively low, NTMs virtually non-existent[26], and where spontaneous market adjustment has allowed developing countries to take full opportunity of their comparative advantage to develop exports in a most promising manner. It is in these areas at least as much as in the more traditional products that developing countries need to direct their future efforts at earning the foreign exchange necessary to implement their vital development plans and programmes. Such efforts will only bear fruit, however, if liberal market access continues to be granted to the products concerned. The recent experience in some manufacturing sectors casts doubts on the degree of confidence which can be placed on such an assumption.

IV - Services

3.84 Much of the discussion on international trade policy has been concerned with tangible goods. In contrast, international trade in services has received little attention. Although the contribution of services to domestic product and employment in individual countries is usually related to income levels and the degree of sophistication and maturity of the economy, the importance of the sector has increased considerably for almost all countries, developed and developing. According to one estimate, services accounted in 1978 for at least the same proportion of the GDP of the GATT contracting parties, in aggregate, as did the manufacturing sector. Moreover, technological advances in certain services, particularly in transport and communications, and the growing integration of the world economy, have led to a greater internationalisation of service industries. For developing countries, service exports on a broad definition are now about one-third of merchandise exports, a higher proportion than for the world as a whole. With its increased importance and the participation of a large number of countries in international trade in services, it seems desirable that greater attention should be given to the development of a multilateral framework and international rules for trade in this sector.

3.85 Most of the services that are traded internationally are, in fact, closely linked to international trade in goods, though some (e.g. health and entertainment) are in the nature of 'consumption' services; others which also constitute a distinct category include 'factor' services (e.g. returns on capital and labour). Preliminary surveys suggest that services linked with international trade in goods are subject to the same types of restraint (subsidies; regulatory practices, particularly affecting rights of establishment and market access; government procurement procedures; technical standards; licences, etc.) as those that impede the trade in goods, though not all of them are applied to each service industry. Other restrictions that are more specifically related to services, can still be regarded as non-tariff barriers and treated in a similar manner.

3.86 However, there are a number of special features of trade in services which have prevented progress towards liberalisation similar to that achieved for internationally traded goods. To begin with, there are serious problems in identifying, cataloguing and measuring the NTMs that exist in the services sector. There is also the problem of heterogeneity of different service industries, which makes it more difficult to establish generic and multilateral rules for the services sector as a whole. More fundamental, perhaps, are structural factors that determine the conditions under which different service activities are undertaken. For a variety of reasons, such as sovereignty, domestic policy and financial viability considerations, service industries, particularly banking, insurance and shipping, are subject in most countries, developed and developing, to a high degree of national regulation and state participation and, in some cases, to 'self-regulation' by professional bodies. Moreover, given the different levels of development and the contribution that services make to different economies, it is not always clear that removal of restrictions would be advantageous to all countries, particularly to developing countries and some of the smaller developed countries which are not in a position to become significant exporters of services in the foreseeable future.

3.87 It is therefore hardly surprising that past efforts to liberalise trade in services have been limited and not particularly successful. For example, GATT efforts in the 1950s to develop a set of rules regarding transport and insurance came to very little, largely because the developing countries could not support a recommendation for non-discrimination (i.e. no preference for domestic suppliers) and wanted to remain free to protect their domestic insurance industries. Even within the OECD, the Code of Liberalisation of Current Invisible Operations contains important reservations with regard to insurance. A number of governments have continued to insist that liberalisation of international transactions in this field must be preceded by a substantial degree of international harmonisation of national laws and regulations on insurance supervision and other legal and fiscal provisions. In the Tokyo Round, the question of restrictions on trade in services was not discussed in a systematic way. Apart from the inclusion of services where they are a part of a contract to supply goods, which is within the scope of the Procurement Code, little of significance was achieved for services in the MTNs.

3.88 Even now, it is possible to exaggerate the likely impact on future negotiations of the growing interest of some countries in the liberalisation of trade in services. For example, with the existing Federal and State laws on banks crossing interstate lines, it will hardly be possible for the United States to accept a strict application of the principle of reciprocity. In fact, it is far from clear that the US Government, at present the most active with regard to international rules for trade in services, has decided on its objectives regarding the concepts, format or fora for any negotiations which might eventually take place in this field. More generally, different service industries are dealt with by different departments and regulatory agencies in all countries and governments seem to be administratively ill-prepared to conduct comprehensive multilateral negotiations in this sector.

3.89 While there seems to be, therefore, little immediate prospect of serious multilateral negotiations on services, substantial preparatory work will be useful in a number of areas. In the first place, there is a need for technical work in the GATT and UNCTAD secretariats and elsewhere to identify clearly the existing restrictions and trade practices in the various service industries so that different groups of countries will be better placed to recognise their specific interests. Secondly, countries need to clarify the policy alternatives available to them and make appropriate choices in the light of their economic objectives and circumstances. In this context, the varying roles that governments play in service industries, and the possibility of reconciling the interests of countries with surpluses in invisible balances and of those, usually developing countries, with deficits, would require careful assessment. Thirdly, before any multilateral negotiations could make significant progress, several operational issues would need to be considered extensively. They include the role of a comprehensive and multilateral framework, limitations of existing GATT and OECD Codes, the need for sector-specific arrangements, the format of negotiations, the possibilities of developing acceptable packages of gains and concessions, and the respective roles of the various international agencies concerned. Given these requirements for any eventual negotiations, a comprehensive programme of studies and analyses is required to assist governments to make an informed assessment of the extent and form of the existing restraints on service industries and to define the possibilities for improvement. A co-ordinated effort between GATT, UNCTAD and other international agencies would be desirable for this purpose.

References

1. Odd Gulbransen and Assar Lindbeck, *The Economics of the Agricultural Sector,* The Industrial Institute for Economic and Social Research, Stockholm, 1973.

2. E.A. Saxon and K. Anderson, "Japanese Agricultural Protection in Historical Perspective", *Australia-Japan Research Centre,* Canberra, May 1982.

3. FAO, *Commodity Review and Outlook, 1979-80,* p.112.

4. OECD, *Study on Problems of Agricultural Trade,* May 1982, para 5.19.

5. There is no widely recognised definition of processed products; the term is used in this chapter broadly to cover the end-products of any activity where the primary product represents the major material input into the product transformation operation.

6. This was shown in a recent study by UNCTAD. See UNCTAD, *The Processing Before Export of Primary Commodities: Areas for Further International Co-operation,* May 1979.

7. See forthcoming joint Commonwealth Secretariat/World Bank studies on *Industrial Processing of Primary Products* (J. McNerney, "Coconut oil refining"; R.C. Wanigatunga, "Processing of natural rubber of South Asian countries for the export market"; and J. Karunasekera, "The industrial processing of cocoa").

8. UNCTAD, *The Processing Before Export of Primary Commodities, op. cit.,* pp.23-27.

9. UNIDO, *Mineral Processing in Developing Countries,* 1980, p.3.

10. Austria, Canada, EEC, Finland, Japan, Norway, Sweden, Switzerland and United States.

11. Defined as those products exported by, or in the multilateral trade negotiations request lists of, beneficiary countries of the Generalized System of Preferences.

12. S.A.B. Page, "The Revival of Protectionism and its Consequences for Europe", *Journal of Common Market Studies,* September 1981.

13. By contrast the proportion of imports of manufactures controlled by official safeguard action under GATT Article XIX changed little and, outside the MFA, remained small, 2 per cent in the EEC and USA for example. (See L.M. Gard and J. Riedel, "Safeguard Protection of Industry in Developed Countries: Assessment of the Implications for Developing Countries", *Weltwirtschaftliches Archiv.,* Band 116, Heft. 3, 1980.)

14. See D.B. Keesing and M. Wolf, *Textile Quotas Against Developing Countries,* Trade Policy Research Centre, 1980, who cite estimates of premia reaching around 15-25 per cent of the export value, depending on the state of supply and demand.

15. By January 1987 the average (import-weighted) m.f.n. duty into the major developed countries will decline by 22 per cent, to 8.8 per cent for textile yarns and fabrics, and by 18 per cent, to 16.8 per cent, for clothing.

16. Taiwan is not a signatory of the MFA, and EEC quotas on its products are imposed unilaterally.

17. Australian Industries Assistance Commission, *Annual Report 1980/81.*

18. It should be added that such arrangements provide for 'equitable and quantifiable' compensation to the exporting participant.

19. The 41 signatories to MFA II (EEC counted as one) accounted for over four-fifths of world trade in textiles and clothing. By mid-June 1982 the protocol covering MFA III had 26 signatories representing 35 countries. (They included Brazil, Colombia, EEC, Egypt, Finland, Hong Kong, Hungary, India, Japan, Korea (Rep.), Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Singapore, Sri Lanka, Switzerland, Thailand, Uruguay and United States.)

20. Calculated from *The European Community's Textile Trade,* European Commission, April 1981 (Appendix C). It may be noted that imports from industrial countries (outside the EEC) rose at an average annual rate of 11.2 per cent.

21. Rates vary considerably, however; 27 per cent on leather footwear in Japan but only 8 per cent in the EEC, for example.

22. VERs have already been agreed with Japan.

23. Pre-clearance was granted if an exporter could establish that his price, although below the 'trigger' level, was at or above the 'fair-value' defined by the anti-dumping statute. It was granted to certain producers in Canada and Mexico, but is currently suspended.

24. In 1980 these comprised Australia, Austria, Brazil, Bulgaria, Czechoslovakia, Finland, Hungary, Japan, Norway, Poland, Romania, Spain and Sweden; in 1981 Korea (Rep.) was added.

25. France has erected quotas against some items, e.g. toys and umbrellas from certain countries in eastern Asia.

26. Except in respect of technical standards, which are capable of use for protective purposes.