

8. Summary and Recommendations

“The growth of world trade in all its facets is both a necessary element for the growth of each country and a consequence of that growth. We reaffirm our commitment to strengthening the open multilateral trading system as embodied in GATT and to maintaining its effective operation. In order to promote stability and employment through trade and growth, we will resist protectionist pressures and trade-distorting practices. We are resolved to complete the work of the Tokyo Round and to improve the capacity of the GATT to solve current and future trade problems.”

Declaration of Western Economic Summit, Versailles, June 1982

Summary

I

8.1 The slowdown in economic growth over the past decade has had its inevitable repercussions on the expansion of international trade. After 1973 this proceeded at less than half the rate of the previous decade and in the last two years it has virtually come to a halt.

8.2 The trade of most developing countries held up better in volume than that of the developed countries, the main exceptions being the OPEC countries (which, however, had the benefit of much higher prices) and the poorer developing countries (which, on the contrary, suffered a swing in the terms of trade against them). There was also a large expansion in the 1970s in exports of manufactures, concentrated on a small group of developing countries but allowing many others to reduce their dependence on a few staple commodity exports (or even a single one) with volatile prices. At the same time, the developing countries conducted an increasing share of their total trade with one another and a diminishing share with the developed countries. Their main markets, however, continue to be in the developed countries which in turn find in the developing countries an important and expanding market for their exports.

8.3 On the whole, the developing countries, with the important exception of the poorer ones, survived the first oil shock of 1973-74 remarkably well. They had begun to make rapid headway in world markets for manufactures and several of them were poised for a more broadly based expansion. Even so, their share of the market in developed countries remained small, averaging about 9 per cent of total imports of manufactures and 3 per cent of the consumption of them.

8.4 Now, however, the outlook for the trade of the developing countries gives grounds for serious concern. The rate of expansion has fallen sharply over the past two years. Markets in the OPEC countries are no longer booming and markets elsewhere are stagnant; migrant workers from the other developing countries are less in demand and their remittances have ceased to grow; the terms of trade of the oil-importing countries have become steadily less favourable. The banks are less ready to lend, the inflow of new capital is less assured and leaves less to spare for new investment; moreover, the bill to be paid in interest charges is a great deal more formidable. All this comes on top of a major change in the economic climate and a devastating slowdown in economic activity throughout the world that blurs the market signals to which investment responds and makes it far harder for the developing countries to decide which way to turn in planning the future of their economies.

8.5 To make matters worse, the expansion that has been taking place in the trade of the developing countries is contingent on a freedom of access to markets in the developed countries that has been steadily curtailed. The growth in their trade, with which their entire development is closely linked, cannot be resumed at the rate necessary for that development 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.

8.6 The new barriers to trade, largely outside international rules, which have grown up in the developed countries apply with special force to the manufactured exports of the developing countries and are highly discriminatory. At the same time, restrictions on trade in agricultural products, which have all along been largely denied international control and surveillance, continue unabated.

II

8.7 There is a considerable gap between the international trading regime as it was envisaged in 1948 when the GATT was negotiated and the way it now operates. On restrictive business practices, direct foreign investment,

intra-firm trade, the rapidly growing trade in services, government involvement and many other prominent features of modern trading relationships, the GATT is silent. No serious efforts were made to include agricultural trade in the successive negotiating rounds of the GATT until the Tokyo Round in 1973, and quantitative restrictions on agricultural products were exempted from the start. There were no rules governing domestic industrial, regional or environmental policies, which increasingly impinge on international trade, and the tendency in practice has been to subordinate international obligations to the needs of domestic policies, as is specifically authorised in respect of the agricultural sector.

8.8 The original multilateral and non-discriminatory GATT model has also been buffeted by the realities of trading blocs and their associated partners which discriminate in favour of their members in a way contrary to the original spirit of the GATT. Above all, the developing countries, although accorded special preferential arrangements in some parts of the world trading system, have been subject to discrimination of the reverse kind in other parts of the system and have not been treated as equal trading partners.

8.9 Non-tariff measures (NTMs) have emerged as a major challenge to the entire GATT system. First of all, there has been increased use of formally permissible instruments of non-tariff protection, particularly in agriculture; there is now hardly a major agricultural product supplied by the developing countries in competition with developed countries for which the world market is not undermined or distorted by subsidised exports or concessional sales from surplus stocks of developed countries. The EEC, for example, has become the world's second largest exporter of sugar after Cuba and of beef after Australia.

8.10 Secondly, authorised NTMs within the GATT are increasingly discriminatory and selective: the most notable example is the Multifibre Arrangement (MFA) which discriminates explicitly against imports from developing countries of products of high importance to them in the early stages of industrialisation.

8.11 Thirdly, there has been increasing resort to new instruments of governmental protection such as orderly marketing arrangements and 'voluntary' export restraints, as well as import levies, direct and indirect export subsidies, and other forms of discretionary intervention. Deprived of the tariff weapon by the success of GATT in reducing industrial tariffs, these countries, in their anxiety to protect some manufacturing activities, are now resorting to the same wide range of NTMs as they introduced in earlier decades to protect agriculture. These measures, unlike the tariffs

for which they are a substitute, represent a relative breakdown of order and automaticity and are usually accompanied by *de facto* discrimination among trading partners.

8.12 Thus a high proportion of trade takes place on a basis other than that of m.f.n. Discrimination is found both at a general level as between members of different trading blocs and selectively in respect of particular countries and industries. There is wholesale abuse or evasion not only of GATT principles but even of prescribed GATT rules, particularly in respect of quantitative restrictions; there is growing resort to NTMs of a kind for which there are no GATT rules. Bilateralism has gained at the expense of the envisaged multilateral approaches to trade negotiation, policy debate and disputes settlement. As NTMs have proliferated, the transparency of trade barriers has been reduced, making monitoring, surveillance, and assessment of effects considerably more difficult. In general, much higher proportions of international trade are being 'administered' and 'managed', both by governmental and by private transnational actors, than the original GATT negotiators anticipated. Where discretion replaces rules, the weakest invariably lose most. In consequence of these and other developments there has recently emerged a popular climate of increased legitimacy for protectionist pressures and arguments in the developed countries.

8.13 Temporary balance of payments pressure, high unemployment and slower growth may help to explain the recent resurgence of protectionist pressures in these countries. But as has been seen, the degree of malfunctioning in the present world trade regime has deeper roots than these. The particular characteristics of current protectionist policy measures suggest that they are the product of more fundamental influences, including changes in world trading patterns and in the way international trade is conducted and perceived. There must therefore be careful consideration of the requirements of an effective international trading and investment order that takes the new realities more satisfactorily into account.

III

8.14 The most unfortunate feature of developed countries' agricultural protection policies is the almost universal reliance upon price support in order to stabilise domestic markets and farmers' incomes. Domestic policies, influenced by political pressures, have led to prices which are usually very high in relation to those on world markets; an array of measures has been adopted to insulate domestic markets from international competition. These prices encourage output to exceed

domestic requirements, and the high levels of subsidies required to dispose of surpluses in world markets disrupt these markets. They aggravate instability and distort production, discouraging it in countries with lower costs of production. Of all forms of protection these are the most damaging to world markets. Direct income payments to groups of uncompetitive farmers, whom domestic policy requires be kept in farming, would minimise the disruptive effect of protection on trade. But consideration of alternatives can make little progress as long as national agricultural policies are exempted from international scrutiny.

8.15 Although tropical products do not usually compete with domestic production in the developed countries, they are still subject to trade restrictions which burden exports from developing countries.

8.16 Tariffs remain an important obstacle in relation to processing in developing countries, and the degree of effective protection was frequently unchanged or even increased when tariff cuts on primary products were made in the Tokyo Round. Effective tariff protection tends to be higher for processing activities in which the developing countries have a comparative advantage. The same is true of non-tariff barriers. The relaxation of such protection could be of great benefit to developing countries that are not yet in a position to export labour-intensive manufactures, since there is great scope for additional export earnings through the processing of raw materials.

8.17 After the conclusion of the Tokyo Round reductions, developed country tariffs will no longer constitute a critical barrier to trade in most manufactures, but they will still exceed 10 per cent in textiles and clothing. Trade in this sector, however, is regulated by the MFA which imposes ceilings on permitted rates of growth of imports into participating countries from 'low-cost' suppliers through a series of bilateral negotiations. It is the experience of the MFA and its related bilateral negotiations, with expanding country and product coverage, diminishing provision for growth, increasing complexity and rigidity and apparent permanence, that is contributing substantially to the growing disillusion of developing countries with the international trading system.

8.18 The impact of protectionism by developed countries in other sectors of manufacturing varies. Manufactures considered 'sensitive', though not to the same extent as textiles and clothing, include footwear, plywood and pulpwood, certain electrical and electronics goods, and some metal products. For some products, such as motor vehicles, steel and chemicals, NTMs are for the present directed mainly or entirely at other developed countries; for others, such as sports goods and musical instruments,

protection has been in the form of tariffs and does not seem to have had much dampening effect on the growth of imports. For others still, including many electrical goods and components, the industry has "internationalised" itself under sub-contracting and other intra-firm arrangements so that protectionist pressures have generally been resisted. There are in addition many manufactures, notably in various branches of the engineering sector, in which tariff protection by developed countries is relatively low and NTMs virtually non-existent; in these areas spontaneous market adjustment has allowed developing countries to take full opportunity of their comparative advantage to develop exports.

8.19 In service industries, NTMs of various kinds, including regulatory practices affecting the rights of establishment and market access, are applied by most countries. Because of a lack of attention in the past, however, it is not yet clear what kind of policy developments and international rules would best suit the particular needs of developing countries.

IV

8.20 There have generally been strong links between the growth of developing countries' exports and that of their economies, and few would doubt that restricting exports inhibits growth. Whatever development strategies are adopted, access to external markets is important to the great majority of developing countries and vital to those with small populations. Protection causes them costs, both immediately through a direct loss of potential foreign exchange earnings, and in the long-term through retarding or frustrating the necessary structural transformation of their economies.

8.21 Available data indicate that increases in the 'new' forms of protection by developed countries from around 1974 have had significant effects on developing countries' exports, not least in a marked slackening in their penetration of developed country markets for manufactures. Their total market share during the 1970s never exceeded 3 per cent, and after rising at about 13 per cent annually during 1970-74, it grew much less rapidly thereafter; for the decade as a whole the average annual increase was only 8 per cent. The deterioration in the relative position of developing countries' exports was especially marked in the case of clothing, after market access had been tightened considerably as a result of restrictive agreements negotiated bilaterally by participants in the MFA. One estimate suggests that developed country clothing imports from developing countries would have been around 90 per cent (about \$10 billion) greater in 1980 if the 1968-76 relation between developed countries'

income and their imports from developing countries had been maintained. On the same basis, the increase in imports of textiles would have been around 25 per cent (over \$1 billion).

8.22 The deterioration in access was less marked for primary products, but the severe restrictions from which trade in agricultural and processed products was already suffering, particularly from NTMs, meant that some developing countries had for many years been foregoing large amounts in potential foreign exchange earnings. It has been estimated that a halving of OECD barriers to imports of food products would have raised imports from developing countries by at least \$3 billion annually (in 1977 dollars), which is over a tenth of the food exports of these countries at that time. As far as processed products are concerned, the often severe degree of tariff escalation in developed countries has also had considerable adverse effects on the development of the countries in which the products originate. Removing tariffs on imports of eight processed products, for example, would according to one estimate have increased the value added in developing country processing activities by over a fifth.

8.23 The costs of protection to developing country exporters vary with the types of barrier they face. Costs would be minimised if the objects of protection were achieved by means of assistance not linked to the production of particular goods. If such a link is deemed necessary, production subsidies would be better than tariffs, and tariffs better than the variable levies applied to trade in many agricultural products and the various quantitative restrictions of the 'new' protectionism on manufactures. If there is not a reduction in all forms of protection, governments of developing countries may be driven into adopting more inward-looking and inflexible trade regimes in which dynamism, innovation and enterprise will be constrained and rapid development unlikely to be achieved.

V

8.24 Protection, however well intentioned and whatever its purpose, exacts serious costs in the countries which impose it. Thus the immediate benefits accruing to protected interests have to be set against the costs to other domestic interests and, in the long-term, to those protected as well; all these costs have also to be compared with those of alternative means of achieving the same objectives.

8.25 In the short-term protection is paid for by consumers in the form of higher prices and a reduced variety of goods. Although the costs so incurred are not easily quantifiable, estimates for developed countries

point to a very large aggregate, particularly for certain temperate agricultural products and some labour-intensive manufactures. In the case of agricultural protection, the costs to consumers (including a contribution from taxpayers) in industrial countries were put at over \$40 billion more than a decade ago, and they have risen since. In manufacturing, the costs to consumers in the United States of protection of just three products were estimated at over \$3 billion between 1975 and 1977, while in the United Kingdom the MFA was found to have increased prices of textiles and clothing by between 15 and 40 per cent. Similar results can be quoted for many other developed countries.

8.26 If the protection involves domestic subsidies there is also a cost to the taxpayer. Subsidies to support agriculture and basic industries are estimated to have reached as much as 7 per cent of GDP in some developed countries during the 1970s, over twice the revenue from tariffs.

8.27 In the longer period, protection in developed countries also exacts costs from those producers (whether workers, employers or shareholders) who, as exporters, risk losing sales through retaliatory action abroad or, more directly, through the loss of purchasing power in the countries affected. This last point is increasingly important. For in an interdependent world, where nearly half the extra-regional exports of manufactures from North America and Western Europe go to developing countries, which have become increasingly important customers (both relatively and in absolute terms) during the past decade, the external repercussions of protective actions cannot be minimised. Costs may also be payable by the producers protected, in so far as they are locked into activities in which their productivity and income or profit are likely to be lower than they could have been in other activities; they may, in any case, eventually succumb to foreign competition and be put out of business. The existence of lower wages and inferior conditions of employment in other countries does not in itself justify protection against their goods; it is, in the main, simply a reflection of their stage of economic development.

8.28 Finally, protection exacts a cost on the whole community if it means the economy is not being operated as efficiently as otherwise would be possible. There are thus adverse long-term effects on the creation of employment, income and wealth, which arise from a weakened response to dynamic shifts in comparative advantage, an increase in structural rigidities and a consequent mis-direction of resources when competitive influences are held at bay.

8.29 Protection will not, in the final analysis, stop economic activities from locating themselves in those areas of the world where costs are lowest

(though this is unlikely always to be where labour is cheapest). What is needed in those countries which are attempting to protect themselves from the effects of changes in comparative advantage is not to erect barriers to foreign goods and services but to minimise the transitional costs of structural adjustment. The incomes of those currently engaged in protected activities can best be preserved, or even raised, by giving grants or direct income supplements to individuals and enterprises in forms that encourage the movement of resources into activities more suited to the present than to the past comparative advantage of the country concerned. Ultimately, protection is not an alternative to adjustment; it will simply lead to a greater probability of trade wars between countries and increased international friction of all kinds.

VI

8.30 The trade preferences given by developed countries to developing countries, which are nowadays extended on a non-reciprocal basis, go some way towards ameliorating the trade barriers that would otherwise present a more serious obstacle to the exports of developing countries. However, these preferences are not without shortcomings. The various schemes within the Generalized System of Preferences (GSP) do not extend beyond tariffs to non-tariff barriers and are so restricted on the extent to which use can be made of them that many developing countries find them to be of strictly limited benefit, especially in view of the uncertainty surrounding their operation and continuance.

8.31 The coverage of the system in terms of imports cleared under it by OECD countries and two East European ones amounted to about \$27 billion in 1980. This is roughly a quarter of their dutiable imports from beneficiary developing countries. Studies confirm that the amount of trade that would not have taken place, but for the GSP, is not negligible; but that the possible effects on investment in the supplying countries, which it would be one of the main aims to stimulate in accordance with the objective of promoting industrialisation, are greatly lessened by the way restrictions on the utilisation of the schemes are applied to incremental trade volumes, or to products that developing countries are especially good at producing.

8.32 The cost of the GSP to the Treasuries of preference-giving countries is about \$2.2 billion in terms of revenue foregone. To the extent that this has dynamic effects on trade and investment it accords with the emphasis on trade rather than aid. Its uncertain continuance greatly impairs these possible effects, which could be better promoted by duty reductions on an m.f.n. basis. These would be bound against increase in GATT, whereas duty reductions under the GSP are non-contractual and can be withdrawn

unilaterally without reference to injury or trade disruption. But if trade liberalisation on an m.f.n. basis cannot be assured, developing countries should not be expected to give up advantages they now possess, however circumscribed.

8.33 In these and some other respects, the Lomé Convention, being a contractual relationship, is more beneficial. It is broader and less exclusive than the preferential trade regimes it replaced, while seeking to preserve their most liberal features. It applies in principle to NTMs as well as to tariffs, so that with a few (important) exceptions, exports from the ACP countries to the EEC are quota-free as well as duty-free. Moreover, by incorporating provisions on aid, export earnings stabilisation, and industrial co-operation, the Convention addresses itself in a much more comprehensive way to the developmental and trade problems of the developing countries it is intended to assist. It is also more generous in trade co-operation in agriculture, where practically all GSP schemes are relatively weak. It is, however, geographically much more restricted in scope than the GSP.

8.34 The development of 'offshore' or 'outward' processing, by which goods from developed countries are assembled, finished or otherwise processed in developing countries for shipment back to the developed country, has been facilitated by two developments. One is the introduction of 'value-added' provisions in the import tariffs of developed countries, which allow a waiving of duty on such 'originating' goods re-entered in incorporated form. The other is the establishment of export processing zones in developing countries. Where products like textiles, clothing and footwear face severe barriers in developed countries, such arrangements offer an alternative or additional path along which developing countries seeking to initiate or accelerate industrial export growth may move.

8.35 There are, however, dangers that the rules of origin of these 'value-added' tariff provisions and of the Lomé Convention can lead to a form of industrial development in developing countries that need not coincide with that which comparative advantage or development aspirations, by themselves, would dictate. There may be a risk of the bilateral and inward-looking tendencies in some regional arrangements impeding further progress in multilateral trade liberalisation. Notwithstanding these qualifications, on the whole the advantages of the preferential arrangements, including 'value-added' tariff provisions, to developing countries are significant.

VII

8.36 Existing international machinery has proved inadequate to deal with the emerging trade problems. The limitations arise not only from continuing gaps but also from a failure to respond to new needs. Unless a major effort is made to restore credibility to the international trading regime, there is a danger of breakdown and a massive reversion to inward-looking policies and to bilateralism and discrimination.

8.37 In recent years the safeguard system — Article XIX — has been largely evaded, mainly because of the requirement of non-discrimination. The improvement of the system to enable all safeguard actions to be brought into the public domain through an agreed framework of rights and obligations is undoubtedly the most important element of ‘unfinished’ business from the Tokyo Round. The point at issue is the ‘selectivity’ or discrimination demanded by some developed countries and resisted by the developing countries. Selectivity would be a further departure from the norm of non-discrimination. However, an effective safeguard system is so important for the future growth of exports from developing countries that, if one with the required attributes could be agreed, a carefully controlled and temporary concession on the question of selectivity might still be in the interest of these countries.

8.38 An improved safeguard system requires support from positive adjustment policies. Adjustment must be a continuing process but a strong case can be made for additional adjustment assistance where problems are caused by export expansion from developing countries. The reversal of the drift to protectionism requires that ‘orderly’ marketing arrangements, ‘voluntary’ export restraints and other protective measures taken against surges of imports from developing countries be brought within the context of an improved safeguard system.

8.39 The Tokyo Round, completed in 1979, set out to consider the framework of trade and succeeded in concluding several agreements (codes) on NTMs designed to improve the rules and provide more effective discipline. The difficulties of balancing rights and obligations in this area, however, meant only limited progress in rule-making. There remain many ambiguities. Although some of the codes provide for special and differential treatment for developing countries, many problems remain in the way of ensuring benefits for these countries. The code on government procurement, for instance, entrenches bilateral reciprocity in an area where developing countries have weak bargaining power.

8.40 The code on subsidies and countervailing duties (together with the related and revised anti-dumping code) is the most important of the new

codes for developing countries. But although it makes provision for the special circumstances of developing countries, its effectiveness is impaired by the lack of a clear definition of the concept of 'material injury'. In the case of this and other codes, as well as of Article XIX, there are various conceptual problems about the nature and extent of 'injury' and 'market disruption'; there is also the need to be able to establish clearly a causal link between 'injury' and imports. One major developed country has already unilaterally taken the position that it would not extend the code's provisions to non-signatory countries. Thus the m.f.n. provisions of the code are being rendered conditional and reciprocal. Moreover, experience so far has demonstrated discretionary and ambiguous elements in the code.

8.41 The interests of the developing countries and the small developed countries are inadequately represented in the GATT negotiating process. The procedures, which emphasise bilateral processes, discriminate against weaker countries. Thus although Part IV of the GATT specifically provides that developing countries should not be expected, in the course of negotiations, to make contributions which are inconsistent with their development needs, there has been an unfortunate drift to bilateral reciprocity in the codes. Bilateralism also features in the way the disputes settlement procedure operates. Its lack of transparency and high susceptibility to political influence make it ultimately ineffective.

8.42 The effective functioning of international trading arrangements is ultimately dependent upon support from the major trading partners. There is an unfortunate tendency for some of the major developed countries to take general trade and investment issues first to the consultative processes of the EEC or the OECD rather than to the more universal multilateral fora. The credibility of the international trade machinery depends upon its acceptability and use by all its formal adherents, as well as on the increased 'relevance' and greater universality of participation in its operation.

Recommendations

8.43 In the course of this survey of protectionist practices, their effects on developed as well as on developing countries, and their implications for the overall international trading system, we have considered numerous proposals for policy reforms and improvements at both the national and international level. Here we seek to draw them together in one place. These recommendations should be seen against the background of our assessment of the world trading scene.

8.44 Whilst one cannot avoid being influenced by the short-term problems of the moment, problems which are very grave indeed and which

we would not want to minimise, it is important to take a longer-run view of international trading relationships and prospects. The trade policies and practices of governments today are establishing precedents for those of tomorrow. The private and public investment decisions taken in the 1980s will determine the trading patterns of the 1990s. In the inevitable focusing of policy-makers on day-to-day problems and international disputes, there may be a natural tendency for them to neglect the longer-run requirements for efficient growth, international order, and future welfare. The immediate concern with problem sectors, employment difficulties, and policies for short-term 'damage limitation', with all its attendant implications for international relationships, has an understandable internal logic. It was the same defensive logic which moved governments and decision-makers in the 1930s. It carries risks of similar outcomes.

8.45 The turmoil of the 1930s and the Second World War was followed by unprecedented international cooperative efforts at reconstructing the world economy. The international economic order established in the 1940s was not without flaws, but it achieved a substantial measure of success in terms of the aspirations of its originators. It was created by policy-makers who could see beyond the problems of the moment and retained a vision of how the world economy could and should function in the longer-run. It is a similar brand of practical and far-seeing vision which is badly needed but appears in short supply in the present disordered times. In principle, few would question the long-run desirability, in international trading relationships and regimes, of multilateralism, non-discrimination (except for what is agreed multilaterally), transparency and predictability, consistent with special and differential treatment accorded to the developing countries. Most would also agree that growth of productivity, levels of income, international equity and overall global economic welfare are likely to be significantly higher within a world trading regime which has such characteristics. In this time of disarray in the world economy and backsliding on earlier commitments to internationalist objectives, it is crucially important to restore the original beacons (or develop new ones) to guide national policy-makers through difficult times in which they are continually tempted to find what seem easier short-run solutions by turning inward.

8.46 A major element in a sustainable international trading system is a fair and equitable place for the developing countries. We have sought throughout to identify their particular stake in the future trading arrangements. In translating the more distant objectives and aspirations into the details of immediate policies it is easy either to look wildly unrealistic or, at the other extreme, to seem overcautious. We have tried to steer a middle course. We see the GATT Ministerial Meeting in November

as an occasion when the appropriate tone can be set for the rest of the century. We have therefore particularly directed our recommendations towards that occasion and the work programme to which it should give rise for the decade ahead.

8.47 An essential requirement is a return to a set of agreed principles and rules applying to all international trade and providing a recognisable and ordered framework within which it can grow. In the post-war period these rules were mainly formulated and sustained in the GATT, which was highly successful in securing international agreement to reductions in tariffs on manufactured goods but has failed to check the growth of agricultural protection and the NTMs by which the trade of developing countries is increasingly limited. An orderly trading system enjoying the confidence of these countries must bring all such barriers within internationally accepted rules and procedures. Without them the developing countries have little bargaining power to employ in bilateral negotiations for the removal of trade barriers. They depend heavily for fair treatment on the observance by their trading partners of agreed rules of conduct, and the ability to publicise any breach of these rules. Apart from retaliation and such limited provision as there may be for compensation, it is difficult to devise sanctions to which the more powerful countries will agree in advance, except publicity for infringements of the rules and the disinclination of countries to be seen to be breaking rules by which they have agreed to abide.

8.48 The first step must be to address the unfinished business of the Tokyo Round. The need for action to contain protectionism in all its forms was recognised but there was no general agreement on the way of achieving this. Agricultural protection and NTMs generally have still to be brought within codes of practice capable of effective implementation. Proper surveillance of the safeguards used by importing countries is urgently required, with guidelines and procedures agreed in advance. No satisfactory mechanism has been created for the settlement of disputes, taking due account of the weak bargaining power of smaller countries and developing countries. Since protectionism is most strongly entrenched in agriculture, a decisive move towards bringing agricultural trade more fully within the purview of the GATT would signify a serious intention by governments to come to grips with the general problem of protectionism. There is need also for a more positive approach to structural adjustment as a means of reallocating resources within each country in the light of changes in comparative advantage.

8.49 We begin by considering the fundamental needs for rules and procedures and the safeguards and codes that should govern relaxation of

them. We then stress the importance of transparency and publicity in rules and procedures. We discuss preferential arrangements and how these might be modified. We also make recommendations for structural adjustment and for a phased approach to liberalisation of trade in textiles and clothing and agricultural products, and end with a number of more general recommendations.

List of Recommendations

A. Rules and Procedures

1. The principles of multilateralism, non-discrimination (except for what is agreed multilaterally), transparency and predictability, consistent with special and differential treatment accorded to the developing countries, should be upheld and given practical support (7.23, 7.45).
2. The growing volume of officially and unofficially administered trade should be brought under international surveillance and submitted to internationally agreed rules and procedures (2.44, 3.27).
3. It should be recognised that multilateral review of national policies that have significant international repercussions is appropriate and necessary (3.25).
4. Forms of protection should be chosen which, in achieving the aims of the country imposing them, occasion the least damage to exporters (3.23, 4.29).
5. Governments should work towards a system of rules and procedures where the forms of protection and the circumstances in which it is legitimate to increase the general level of protection should be agreed in an open and multilateral forum, and except for generalised preferences, all protection should be on an m.f.n. basis (7.26).
6. Joint machinery should be established linking GATT, UNCTAD and other international agencies, to discuss protectionism and structural adjustment, including the policy framework for agricultural, industrial and other sectors; this could lead to, and facilitate, negotiation of specific rights and obligations in appropriate agencies (7.42).
7. These agencies should launch a joint programme to monitor and assess protectionism and structural adjustment in both agriculture and industry, with special attention directed to non-tariff measures (7.28, 7.43).

8. Practical assistance and technical support should be provided to developing countries to enable them to participate more fully in the formulation and implementation of these surveillance and control procedures (7.31).

B. Safeguards and Codes

1. The present provisions of Article XIX of the GATT should be revised to ensure that resort to all arrangements such as quotas, 'voluntary' export restraints and 'orderly' marketing arrangements is subject to greater multilateral control and discipline (3.55, 7.4).
2. The revised safeguard provisions should give clear indications of the circumstances in which protective action under Article XIX or under the codes is justifiable and should be more explicit as to the permissible scope and duration of such action; all such action should be time-bound (3.55, 7.6).
3. Existing codes governing any permitted relaxations of trade rules need to be freed from ambiguity, made precise and specific and supplemented where necessary by new codes (7.12).
4. More precise definitions based upon economic concepts should be provided for such terms as 'market disruption', 'material injury', 'serious injury', etc. (7.12).
5. There should be precise and multilaterally agreed means, based on economic concepts, of determining the causal link between imports and 'market disruption', 'material injury', or 'serious injury', and the extent of appropriate redress (7.18).
6. Provision should be made for the phasing out of arrangements such as 'voluntary' export restraints and 'orderly' marketing arrangements (7.9).
7. Where protective action under Article XIX or other articles or the codes is taken, the burden of proof in respect of 'market disruption', 'injury' etc. and the obligation to demonstrate the causal link between imports and these phenomena (i.e. to show that such action is justified within the agreed rules) should lie with the importing, not the exporting, country (7.21, 7.22).
8. Stricter disciplines are required under the Code on Subsidies and Countervailing Duties with respect to subsidies employed by the developed countries which have a strong adverse impact on the trade

of developing countries. This is necessary whether the subsidies apply directly to exports, to export credits or to domestic production (3.27).

9. The drift towards reciprocity and the pre-GATT form of conditional m.f.n. in negotiations on codes for non-tariff measures should be reversed, even if these codes provide for some sort of differential and more favourable treatment for developing countries (7.34).
10. Consideration should be given to the establishment of a 'legal aid' service for small countries to help them to pursue legitimate grievances under the GATT (7.29).

C. Multifibre Arrangement

1. The Multifibre Arrangement should be brought within the context of the rules and procedures of an improved Article XIX (3.67).
2. Developed countries should undertake a phased liberalisation of their imports of textiles and clothing from developing countries. This would require: (a) in the early stages, an increase in the annual growth in quotas and the elimination of quotas altogether for small suppliers and new entrants; (b) the eventual abolition of all quotas on these products (even if this meant a strictly time-bound increase in tariffs); and (c) a reduction within a specified time-period of their m.f.n. duties to a level much nearer to the average for all manufactures (3.67).

D. Transparency

1. Any country maintaining protective barriers or imposing new ones that are inconsistent with its obligations under international rules and procedures should have to justify its action in an open multilateral forum (4.30).
2. Countries wishing to impose such protective barriers should specify the economic aims of these barriers, not only in terms of a trade objective but also of other underlying considerations such as maintenance of employment (4.30).
3. There should be joint action by GATT and UNCTAD, with the co-operation of other agencies, to maintain and publish at regular intervals information on non-tariff barriers to trade for all countries, starting with developed countries; governments should supply all data for this to be undertaken effectively (7.28).

4. The GATT panel system for dealing with complaints and settlement of disputes should be strengthened and opened to public scrutiny (7.38).
5. National and international bodies should seek to give publicity to estimates of the cost of protection both to the countries imposing protection and to those whose trade is affected (7.27, 7.28).
6. Transparency and surveillance activities should be assisted by the provision, within each developed country, of a public forum at which those who wish to maintain or impose protective barriers should explain their purpose and the proposed form of any new barrier (7.26).

E. Preferential Arrangements

1. Efforts towards global trade liberalisation should aim in the long run at a negotiated convergence of preferential schemes, preserving the most liberal elements in each; the reduction of m.f.n. tariffs should, however, be kept in view as the preferred alternative to these schemes (6.11, 6.27, 6.31, 6.34).
2. The various preferential schemes should be improved in terms of simplicity and harmonisation of operation, and consideration should be given to their possible extension to non-tariff measures and in other ways (6.12, 6.27).
3. Preferential schemes should also be given more certainty, extended in coverage, and freed of limitations damaging to developing countries, especially the least developed among them (6.29, 6.30).
4. Any eventual phasing out of preferences for the more advanced developing countries should be subject to multilaterally agreed rules; when necessary, compensatory concessions for loss of preference should be negotiated (3.34, 6.28).
5. Policies and practices regarding 'value-added' tariffs and 'outward-processing' should be internationally harmonised and made non-discriminatory among sectors and firms; the use of such provisions should be regularly reported (6.25).
6. The rules of origin under the Lomé Convention should be relaxed to facilitate the industrial development of African, Caribbean and Pacific member countries (6.33).

F. Agriculture, Raw Materials and Processing

1. The above recommendations concerning international machinery, rules, safeguards, codes, transparency and preferential arrangements should apply to agriculture (7.10).
2. The immediate objectives in a phased international approach to agricultural trade liberalisation should include: (a) a standstill on current protection levels; (b) the development of codes of principles on agricultural support measures; (c) gradual improvement in access and reduction of surpluses; and (d) agreements on limits to export subsidies (3.25, 3.26).
3. Where agricultural support is necessary, forms should be chosen which, in achieving the aims of the country imposing it, occasion least damage to exporters (3.23).
4. The process of trade liberalisation for tropical products should be completed by the removal of remaining tariff and non-tariff restrictions (3.34).
5. The elimination in developed countries of internal duties and taxes levied specifically on tropical products should be an object of policy (3.35).
6. A programme should be agreed for the elimination of tariff escalation in developed countries on processed products exported from developing countries (3.49).
7. Non-tariff measures aimed at restricting the entry of processed raw materials and foodstuffs into developed countries should be abolished (3.49).

G. Manufacturing and Services

1. In future GATT multilateral trade negotiations, tariffs on manufactures of interest to developing countries should be cut more heavily than those on other manufactures (3.52).
2. A comprehensive programme of studies and analyses should be established in a co-ordinated effort between GATT, UNCTAD and other international agencies, to assist governments to make an informed assessment of the extent and form of existing restrictions on services and to define possible options for any future negotiations (3.89).

3. While there is no doubt about the need to terminate inhumane labour conditions and unfair treatment of workers, differences in the levels of pay and conditions of work between developing and developed countries should not be made the pretext for protectionism; access to markets should not be conditional on the adoption of labour standards inappropriate to the level of development (5.14).

H. Structural Adjustment

1. Assistance to individuals and enterprises should not be given in forms that encourage the retention of resources in activities in developed countries that are more suited to developing countries (5.4).
2. Governments should formulate and implement positive adjustment policies and mechanisms of assistance which encourage the mobility of resources through retraining and relocation so as to minimise the transitional costs of shifting resources out of activities more suited to developing countries (5.4).
3. These policies and measures should be linked to and should support improved safeguard provisions (2.44, 7.8).

I. General

1. Markets in the centrally planned economies should be more open to trade with developing countries; this would have significant benefits in enlarging world demand for developing country exports (4.27).
2. The newly industrialising and other economically more advanced developing countries should join in the reduction of trade barriers as a contribution to the expansion of markets, especially for the products of other developing countries (4.28).