Chapter 7

Trade and Trade Policies

7.1 International trade has long been considered the engine of economic growth. For many years it has tended to grow faster than GDP or industrial production. There have been several reasons for this buoyancy and we discuss some of them below. But we should signal right at the start of this chapter the importance we attach to liberal trade policies. They are essential for maintaining the dynamism of international trade, based on comparative advantage, which encourages competitiveness and efficiency and thus economic growth and development. Liberalisation benefits not only a country's suppliers and its own consumers, but also its producers and, eventually, world trade and the world economy.

7.2 In a rapidly changing world economy, the liberalisation thrust of trade policy is needed to overcome the increasing protectionist pressures of those who resist change. This is vital as the protectionist path is not only self-defeating and inimical to development, but also reduces welfare by imposing heavy costs on consumers and taxpayers alike. Agriculture, where the support costs in OECD countries exceed $140 billion a year (or over £700 annually for each family in one of the countries involved—Britain), provides one example; textiles and clothing (where the Multifibre Arrangement costs each US household over $500 a year) provide another. The growth of international trade cannot be maintained unless protectionism is defeated. We have already mentioned (Chapter 4) the need to buttress the weak institutional framework in order to put a liberal multilateral trading environment on a firmer basis. Here we focus on the policy elements involved.

Trends in the 1980s

7.3 In global terms the 1980s were generally good for international trade, although without the intensification of protectionism they would have been even better. After stagnating in the first three years of the decade, the volume of trade grew thereafter at an annual average rate of 6 per cent, marginally faster than during the 1970s. In regional terms, the three most rapidly growing trade flows during the decade all involved Asia: its trade with North America rose on average by 12.5 per cent per annum; that within the continent by 11.5 per cent; and that with Western Europe by 11 per cent. Trade flows within North America (average growth of 8 per cent per annum) and within Western Europe (7 per cent per annum) were also buoyant. The fact that in the 1980s major segments of world trade expanded faster between regions than within them suggests that the system may be evolving more towards different growth 'poles' than towards 'fortress' trading blocs, a development that seems counter to the concern of many observers about the possible consequences of the European Single Market of 1992.

7.4 The generally encouraging pace of growth of international trade at the global level masks the serious problems encountered by many countries. Large parts of the developing world shared little in the growth. In volume terms exports from Africa fell steeply in the first two years of the 1980s and then recovered only partially. By the end of the decade they were still over a fifth below their level of ten years earlier. Exports from Latin America fluctuated markedly without showing any clear trend. In both continents imports were depressed as a result of financing constraints. In Latin America, where imports for much of the decade were around a quarter below those at its beginning, these constraints were caused particularly by difficulties in meeting debt-servicing liabilities. In Africa, where the compression in imports was equally severe and in terms of impact even more devastating, infrastructural weaknesses and the low level of development of human resources also played an important role. The volume of exports from the OPEC members also declined significantly, whereas that from south and east Asia was generally buoyant.

7.5 There were significant differences, too, in the nature and composition of trade. Although the only broad category for which the volume of trade actually fell during the 1980s was petroleum, that in primary products as a whole was often depressed. Trade in manufactures was very much more dynamic, expanding on average by 8 per cent annually in the 1980s. Within that category, exports of high-technology goods rose especially quickly (office and telecommunications equipment by 14 per cent annually, for example), but those of some traditional items too rose fast (clothing by 11 per cent, for instance). And trade in services was also buoyant, especially international travel, insurance, banking and other financial and professional services. As a result, comparing 1980 with 1989, the proportion of world trade accounted for by primary products shrank from 36 to 21 per cent whereas that of manufactures rose from 46 to 58 per cent and that of services from 18 to 21 per cent.

7.6 The extent of the changes is apparent from the fact that nearly one out of six product groups in which there was major trade among developed countries in 1989 had not been of significance to the exporting countries concerned ten years earlier. In many cases this was a result of the microelectronics revolution; but not in all, as Finland's exports of manmade fibres or Portugal's of automotive parts showed. And even more striking is the fact that at the end of the decade new products were of greater importance in the trade structures of developing countries than they were in those of the developed countries. Examples include clothing from Bangladesh, cars from Brazil, television sets from Mexico, and office machines from Thailand.

7.7 Allied to these changes were those in the relative importance of countries, both as suppliers and as markets. In a ranking of exporters, close to one in four of the leading 25 countries in 1989 had moved up ten places or more since 1979, and nearly half of them had raised their position by at least three places. Notable examples included China, Mexico, Hong Kong, Singapore, and Taiwan. On the obverse side prominent cases of countries becoming less important as exporters were to be found from among the petroleum producers. Among changes in the ranking of importers between 1979 and 1989, one in five markets had disappeared from the list of principal destinations and one in ten had been added.

7.8 The depressed demand for imports of most primary products during much of the 1980s, together with the increased supplies available for export as indebted countries sought to increase their foreign exchange earnings, caused marked weaknesses in international prices of commodities. In the first half of the decade especially, these were severely depressed (the average of those in the UNCTAD index was in 1985 some 32 per cent below that of 1980). Thereafter most commodity prices recovered somewhat, but by the end of the decade they were still some 10 per cent below their level at the start. Petroleum prices fell particularly heavily, from over $37 per barrel in 1980 to under $10 in 1986 before making a slight and unsustained recovery later in the decade. Meanwhile the average price (unit value) of manufactured exports from developed countries continued to rise, being 26 per cent higher in 1989 than in 1980. The consequence was a marked deterioration in the terms of trade of developing countries, which fell by 19 per cent during the course of the decade.

7.9 The least developed countries were among those most affected by the deterioration in the terms of trade. It has been estimated that their export earnings between 1980 and 1988 were over $700 million less than they would have been in the absence of any terms of trade effect. Most developing countries suffered. Overall the value of exports from Africa fell by half between 1980 and 1986 and made only a slight recovery in later years. Those from Latin America were also lower in value in most years during the second half of the decade than during the first. And those from the Middle East, consisting almost entirely of petroleum, fell particularly heavily. The value of exports from the remainder of developing Asia was generally buoyant.

7.10 In these changing circumstances many developing countries made sustained efforts to diversify their export products and markets. There were individual successes in developing new products and finding new markets, especially among the newly industrialising economies. But sometimes these markets were realised only by cutting prices. More generally, infrastructural and administrative weaknesses, low levels of education and training, capacity limitations and the inability to finance imports of production inputs held back many countries, especially in Africa but also in much of Latin America.

New Elements Affecting International Trade

7.11 At least half a dozen major factors affected the level, content and pattern of international trade during the 1980s. Although most were not in themselves new, they often contained new elements or nuances which in some cases reversed previous trends but in others accentuated them.

7.12 Among the most important of these factors was the impact of economic growth. In theory, international trade allows specialisation based on comparative advantage; it enables countries to raise the efficiency with which they use their factors of production and the rewards these factors are paid. The relationship between trade and economic growth is therefore a symbiotic one. But since 1983 the rise in international trade has been half as much again as that in GDP, for a variety of reasons, which we discuss below.

7.13 A second factor, of much importance in the 1980s, was the structural change to economies caused primarily by technology development. The last decade saw an intensification in the shift from heavy to light industries, and from industry towards services. It also saw a relative decline in demand for many of the developing countries' traditional exports, sometimes as a result of smaller inventories made possible by computer control (see para. 8.6). Meanwhile, new technologies created new industries and rendered some production processes obsolete. They offered some opportunities to developing countries; but more generally they demonstrated and often exacerbated their difficulties in competing successfully in a fast moving economic environment. We develop these points further in the next chapter.

7.14 It is however pertinent here to stress a couple of related points particularly relevant to trade. One is the role of technology in reducing the economic distance between potential trading partners. Technology has reduced transport costs, as roll-on roll-off and containerisation have shown. But its main effect has been in reducing the cost and increasing the capacity of the cross-border communications which are a necessary prerequisite for international trade. Allied to this has been the revolution in data processing. The other point is the role of technology—and particularly of informatics—in blurring the distinction between goods and services and increasing the opportunities for trade in services.

7.15 Another cause of structural change was the policies and programmes many developing countries undertook in the 1980s under the aegis of the international financial institutions. We discussed these in general terms earlier in this Report. Here we should draw attention to the fact that they stressed a more outward orientation, particularly the need for export competitiveness and the elimination of obstacles to trade, and a greater openness to foreign private investment. The results were favourable in some countries, such as Mexico, but less so in others, particularly in most of Africa, which lacked the physical and other infrastructures and dynamic sectors necessary to provide an effective export capacity. But as we have mentioned elsewhere, the compression in imports which accompanied the adjustment had severe social as well as economic effects. Vital inputs to the productive process came into short supply.

7.16 A third and related phenomenon affecting international trade in the 1980s was the increasing globalisation of production. This was the result of many factors. The costs of much of the research and development needed to stay in the forefront of technology, and the scale of much of the capital investment required to produce sophisticated products, both required corporate concentration. Helped by the information explosion and foreign exchange liberalisation, transnational corporations sought increased competitiveness by manufacturing wherever it was most advantageous. At the same time, global sourcing meant that trade within transnational corporations increased. And the growing current account surpluses of Japan in particular, led to greatly increased direct investment, especially between industrial countries. Between 1983 and 1989, the annual average increase in the value of foreign direct investment was around a quarter, compared with about a tenth in that of trade in manufactures. Such investment flows would have had a favourable effect on trade by encouraging production and discouraging protectionism. The deregulation of financial markets provided an additional stimulus in some countries, while the erection of quantitative trade barriers which—unlike tariffs—cannot be absorbed, often had the same effect. The net result is that traditional, arms-length, exports now play a smaller role than they did in the activities of many of the major companies which account for so much of the world's trade in manufactures and certain services.

7.17 A fourth factor which began to affect trade—although only marginally during the 1980s—was concern for the physical environment. This operated at several levels. In some cases it involved governments, as for example with the Convention on International Trade in Endangered Species, which bans trade in certain animals with the aim of conserving biodiversity. In others it involved consumer or 'green' groups, as with boycotts organised in some developed countries, particularly in North America, on the import of certain foodstuffs from particular countries. We revert to this issue later (see paras. 9.29-30). Here we simply point out that the issue is likely to become increasingly topical—at the February 1991 meeting of the GATT Council, for example, there was a debate on the link between trade policies and environmental protection, with a request by EFTA countries that the GATT reconvene its Working Party on Environmental Measures and International Trade. And the environmental cause has the potential to be used, for example by industry associations, for raising new non-tariff barriers to trade. These could become increasingly important in the 1990s and beyond. Clear rules are therefore needed to ensure that the GATT dispute settlement system is properly equipped to deal on request with trade disputes arising from environmental issues of all kinds. Appropriate provisions are also needed to ensure that GATT (and other multilateral agencies concerned with trade, such as UNCTAD) will be able to participate in the follow-up to the 1992 UN Conference on Environment and Development (see para.9.33).

7.18 A fifth factor concerns political developments. Changes pursued as much for political as for economic reasons significantly affected the pattern of international trade in the 1980s. From them flowed much of the increase in regionalism, as we discuss below (para.7.29).

7.19 Political considerations have also affected trade more dramatically and abruptly. Trade embargoes are an obvious example, as between Britain and Argentina early in the 1980s, and between the United States and Nicaragua later in that decade. More recently there has been the UN embargo on trade in almost all items with Iraq. Such developments are usually associated with disagreements which can lead to military conflicts; these in themselves have very considerable effects on trade, almost always for the belligerents and often for third parties, as the affects of the Gulf war on the export of services from South Asian countries highlighted.

7.20 A sixth and vital factor, though one which is implicit in all the foregoing, is government policy. This has both helped to determine the course of the various developments we have just discussed and has been influenced by them. Four main types of policy responses can be identified.

7.21 The first, apparent since the mid-1970s, has been increasing recourse to managed or administered trade. A variety of non-tariff measures has been adopted, outside of GATT principles, rules and disciplines, to meet individual protectionist concerns. 'Orderly' marketing arrangements and 'voluntary' export restraints have increasingly affected trading patterns.

7.22 While only about a third of the 250 or so discriminatory export restraint arrangements in place at the end of the 1980s were explicitly targeted against developing countries, they do fall disproportionately hard on these countries. The products involved include consumer goods such as shoes, cutlery, cars, televisions and radios; intermediate goods such as certain types of steel, chemicals and transistors; and some producer goods such as ships. The principal exporters affected have been Korea, Taiwan and China, though the list is much longer and also includes Mexico and Brazil and several ASEAN countries. Japan, too, has long been the target of these type of measures, particularly in respect of exports of cars and consumer electronics. All the major West European and North American importing countries have invoked them, finding this politically easier, if economically much less appropriate, than adjusting to changes in competitive advantage. The result has been to pose a growing threat to GATT's authority. The irony is that the exemplar for such measures had been negotiated some thirty years earlier under GATT's own auspices: the biggest 'orderly' marketing arrangement of them all, the Multifibre Arrangement which regulates (and restricts) exports of developing countries' textiles and clothing.

7.23 An increasing pressure towards bilateral trade balancing has been apparent in some countries, especially in respect of trade with Japan. The agreement between that country and the United States on trade in semi-conductors is one of the best known examples but there are others, including trade in certain items between Japan and several member countries of the European Community. At a multi-sectoral level, the motivation lying behind the recent Structural Impediments Initiative between Japan and the United States is similar. Although justified (or rationalised) by the United States as an attempt to open the Japanese market further, its essentially bilateral nature again tends to undermine the GATT's authority, and inhibit multilateralism.

7.24 A second but related type of policy response, and a particularly troubling development of managed trade, has been recourse to other forms of unilateralism. There has been an increasing tendency for industrial countries, particularly the United States, to seek unrequited changes in other countries' trade policies and practices, to refuse to submit to common procedures; and to define 'unfair' trade practices unilaterally. Such measures, epitomised in the super and special provisions of Section 301 of the 1988 US Omnibus Trade and Competitiveness Act, have been directed against a variety of developing countries. They include Brazil, cited for its import licensing restrictions, and India, for its regulations on foreign investment and controls over insurance. They have been associated with a marked increase in the number of trade disputes, including those referred to the GATT. Whilst the references to the GATT might be interpreted as a manifestation of faith in multilateral arrangements and GATT's dispute settlement process, the increase in disputes themselves is a measure of the extent of retreat in some countries' commitment to multilateralism and to the principles and rules of the GATT.

7.25 The third type of response has been multilateralism. Although, as we have shown, this has been under attack, it is far from dead and remains in our judgment the most credible response to changes in the world economy. In some ways the GATT has served the world well. The seven rounds of multilateral trade negotiations completed under its auspices were instrumental in greatly lowering tariff barriers on imports of manufactures. By the end of the implementation of the Tokyo Round in 1987, these had been reduced in developed countries to an overall average of 6 per cent and to 8 per cent on manufactures of particular export interest to developing countries.

7.26 But as is well known, the GATT has many limitations and has had its failures. Among its limitations have been the omission (so far) of trade in services—now a fifth of all trade; and the basing of its negotiations on most favoured nation terms, which have long accounted for a diminishing proportion of the world's trade—now little more than a half. But even more important have been GATT's two major failures. The first has been its inability so far to integrate agriculture into the system; the second its impotence in stopping the erection of non-tariff barriers outside GATT rules. Other deficiencies include allowing textiles and clothing to be traded outside GATT rules under a derogation.

7.27 These deficiencies have long been recognised and an attempt to address some of them was made in the Tokyo Round. This did not prove successful but the Work Programme adopted by the 1982 GATT Ministerial Session attempted to take matters further. It also paved the way for the present negotiations under the Uruguay Round.

7.28 The Uruguay Round is by far the most ambitious set of trade negotiations ever attempted (see Box 7.1 below). It is hardly surprising that the negotiations have proved difficult, that the Ministerial session of the Trade Negotiations Committee held in Brussels in December 1990 to conclude the Round ended in deadlock (mainly because of irreconcilable differences on liberalisation of trade in agriculture) and that the Round has therefore had to be extended.

7.29 The fourth main category of government policy response to developments in international trade during the 1980s was an increasing resort to regional and other preferential trading groups (see Boxes 7.2-7.4 on pp.104-109). The widening and deepening of the European Community was shadowed by the creation of other regional trade groupings among developed countries, including the Canada-United States Free Trade Agreement and the Closer Economic Relations Agreement between Australia and New Zealand. Similar groups were established among developing countries in Asia (for example ASEAN

Box 7.1

Uruguay Round of Multilateral Trade Negotiations

The Uruguay Round, launched at Punta del Este in September 1986, is the eighth to be held under GATT auspices. Its objectives are to:

(i) 'bring about further liberalisation and expansion of world trade to the benefit of all countries, especially less-developed contracting parties, including the improvement of access to markets by the reduction and elimination of tariffs, quantitative restrictions and other non-tariff measures;

(ii) strengthen the role of GATT, improve the multilateral trading system on the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines;

(iii) increase the responsiveness of the GATT system to the evolving international economic environment, through facilitating necessary structural adjustment, enhancing the relationship of the GATT with the relevant international organisations and taking account of changes in trade patterns and prospects, including the growing importance of trade in high technology products, serious difficulties and SAARC), Africa (for example ECOWAS and PTA), South America (for example ALADI) and Central America (for example CACM and CARICOM). Some groups brought together developed and developing countries, either on a regional basis (for example the Caribbean Basin Initiative and CARIBCAN between certain states in the Caribbbean and the United States and Canada, respectively, and SPARTECA between Australia and certain states in the Pacific) or on an interregional basis (for example the Lome Convention between the European Community and certain states in Africa, the Caribbean and the Pacific). This tendency towards regional and other preferential trading agreements (which in some cases included related development aid provisions and investment promotion arrangements) was accelerated by the evolution of the multiple centres of dynamic economic growth we mentioned earlier. It was in part a defensive action by countries very aware of the narrowing scope for trade on most favoured nation terms and keen to reap the benefits of economies of scale by stimulating regional development. And it was reinforced by the size of the trading

in commodity markets and the importance of an improved trading environment providing, inter alia, for the ability of indebted countries to meet their financial obligations;

(iv) foster concurrent co-operative action at the national and international levels to strengthen the inter-relationship between trade policies and other economic policies affecting growth and development, and to contribute towards continued, effective and determined efforts to improve the functioning of the international monetary system and the flow of financial and real investment resources to developing countries.'

The Round is being negotiated in 15 groups. These deal with the market access issues of tariff and non-tariff measures; sectoral issues such as agriculture, textiles and clothing, and tropical and natural resource-based products; systemic issues such as safeguards, dispute settlement, and the functioning of the GATT system; and new issues covering the trade-related aspects of intellectual property rights and investment measures, and trade in services.

The Round was scheduled for completion in 1990. However, the Ministerial meeting to conclude it was suspended mainly because of irreconcilable differences on liberalisation of trade in agriculture. Negotiations were resumed in February 1991 but it is not clear when they will be concluded.

Box 7.2

Regional Trade Groupings Among Developing Countries

Regional trade groupings include: (a) free trade areas where partners abolish duties on mutual trade, but retain tariff schedules on extra-regional trade; (b) customs unions which free trade between members but also have a common external tariff; and (c) common markets which are essentially customs unions, but with additional provisions for labour mobility and the harmonisation of trading standards and practices. Examples among developing countries include:

Economic Community of West African States (ECOWAS)

ECOWAS was formed in 1975 and comprises Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. It provides for free trade in unprocessed goods and the gradual elimination of tariff and non-tariff measures.

Preferential Trade Area for Eastern and Southern Africa (PTA)

The PTA was established in 1982 and comprises Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. It intends eventually to eliminate all trade restrictions and establish a common market.

Latin American Integration Association (ALADI)

ALADI was formed in 1981 and replaces the Latin American Free Trade Association of 1960. It comprises Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. It has implemented regional tariff preferences and aims to establish a common market.

Southern Cone Common Market (MERCOSUR)

MERCOSUR was established in March 1991 and comprises Argentina, Brazil, Paraguay and Uruguay. Its main aim is to achieve a common market with a single external tariff and free trade among members by the end of 1994. Other objectives include the coordination of policies on agriculture, industry and transport.

Latin American Group of Three

It was announced in April 1991 that Colombia, Mexico and Venezuela plan to establish a free trade zone by July 1994, subject to the exclusion of certain goods. (Mexico is also negotiating free trade agreements with Chile, Costa Rica and certain other Central American countries, as well as with the United States.)

Central American Common Market (CACM)

CACM was established in 1961 and comprises Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. It applies a common external tariff to all but a few goods from third countries.

Caribbean Community (CARICOM)

CARICOM was formed in 1973 and replaced the Caribbean Free Trade Association of 1967. It consists of Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St Lucia, St Vincent and The Grenadines, and Trinidad and Tobago. All except The Bahamas participate in the Common Market, although Belize and Montserrat have been granted longer to phase in the common external tariff.

Association of South-East Nations (ASEAN)

ASEAN, established in 1967, comprises Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Since 1984 members have applied a 20-25% tariff preference to other members, subject to national exception lists, and have agreed to enlarge these preferences to up to 50%.

The Gulf Cooperation Council (GCC)

The GCC was established in 1981 and consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Intra trade has been liberalised since 1983 and a common external tariff has been adopted by most members.

Box 7.3

Regional Trade Groupings Among Developed Countries

The European Community (EC)

The EC which was formed in 1968 now comprises Belgium, Britain, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. All intra-EEC trade is free of duties, and there is a common external tariff. In 1992 the Community is scheduled to become a single market and all barriers to the movement of goods, services, people and capital will be dismantled. Border controls will be removed, financial markets liberalised, and industrial regulations standardised.

The European Free Trade Association

The European Free Trade Association was established in 1960. Its membership has varied but now consists of Austria, Finland, Iceland, Norway, Sweden and Switzerland. Duties on industrial goods traded within the Association were abolished during the latter half of the 1960s. During the 1970s member countries concluded bilateral agreements with the EC abolishing import duties on almost all industrial products, thus establishing virtually

imbalances between major industrial countries and by the consequent growth of informal protectionism. But it has nevertheless made a real contribution to trade liberalisation, although sometimes causing trade diversion and problems for developing country exporters in respect of the application of rules of origin for trade in processed products. And it has brought greater prosperity to its members, albeit sometimes unequally, as well as increasing the strength of economic and political cooperation between them.

7.30 Many other factors affected trade in the 1980s. We deal with some of them elsewhere in this report—human resource development in Chapter 5 and finance in Chapter 6, for example. But here we wish to draw attention to one of particular concern and more direct relevance—the appropriateness of present institutions for international trade—which we have considered in Chapter 4.

Impact on Development

7.31 The trends and developments in international trade we have sketched out earlier in this chapter have impacted upon the economic a single market in Western Europe in these products. In 1991 they were negotiating with the EC on the establishment of an 18 country European Economic Area.

Canada-United States Free Trade Area

In January 1989, Canada and the USA entered into an agreement to establish a free trade area (FTA), eliminating all tariffs by the end of a ten-year transitional period. Tariffs have already been removed on one group of products; they will be removed in five equal steps over five years on a second group; and over 10 years on a third, "import-sensitive", group. The FTA is expected to receive a boost if negotiations currently underway for the inclusion of Mexico are successful.

Australia-New Zealand Closer Economic Relations Agreement

In 1982, the Australian and New Zealand Governments signed a Closer Economic Relations Agreement intended, inter alia, to eliminate trade barriers between their two countries gradually and progressively by 1995; and have reportedly achieved the objective already. The Agreement, which built on a 1965 pact to promote trade between the two countries, also provides an opportunity for strengthening broader economic relationships between them.

development of all countries, but because of their greater vulnerability they have been particularly important for many in the developing world. Taken overall, the impact of trade in the 1980s has been to intensify the polarisation of development. Most of the newly industrialising countries and certain other middle income countries, especially in Asia, have been able to benefit considerably, whereas most of the low income developing countries, particularly in Africa, have not, despite their preferential access to developed country markets. There are a variety of reasons.

7.32 One of the most important results from the increasing impact of technology on trade. On the one hand, most developing countries have had growing difficulty in paying for the types of technology needed to produce those goods and services for which demand is rising fastest, whose technical standards which change frequently and are applied rigorously, and where the provision of associated servicing facilities is vital. In some cases they have had problems of access as well. On the other hand, as we explain later (para.8.15), some types of technological advance are reducing the comparative advantage these countries possess, especially in the early stages of manufacturing, as a result of a plentiful supply of low wage labour. In many cases developing

Box 7.4

Preferential Trading Arrangements Between Developed and Developing Countries

The Lomé Conventions

The Lomé Conventions between the 12 member states of the European Community (EC) and 69 African, Caribbean and Pacific (ACP) countries represent the most extensive economic cooperation arrangements between developed and developing countries. The first three agreements were for five year periods, starting in 1975, but the latest one (Lomé IV) is for ten years (1990-2000). Lomé IV provides duty-free and quota-free access to nearly all ACP exports to EC markets, although some agricultural products covered by the Community's Common Agricultural Policy are still restricted. It also contains two stabilisation funds (Stabex and Sysmin) to compensate for losses suffered by ACP countries in exports of selected commodities; a development aid package; mechanisms for industrial and technological cooperation; and joint institutions to supervise observance of the provisions of the Convention and to promote discussion between the groups of countries.

CARIBCAN

CARIBCAN was initiated by Canada in 1985 and became operational in June 1986. It abolished duties on imports into Canada from selected Caribbean countries of all items except textiles and clothing, luggage and handbags, leather clothing, lubricating oils and methanol. The beneficiary members are Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Guyana, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent and The Grenadines, Trinidad and Tobago.

countries have found that foreign demand for their staple exports can be made more or less redundant by developments in technology. When this happens to commodities such as copper or jute which are basic to a country's foreign exchange earnings, its effect on development can be substantial.

7.33 A second reason for the polarisation of development concerns the inadequate external support for the reforms undertaken by many developing countries under structural adjustment programmes. Although

US-Caribbean Basin Initiative (CBI)

Conceived by the Reagan Administration in 1981, the CBI was designed to assist Costa Rica, El Salvador, Guatemala, Nicaragua, Panama, Antigua and Barbuda, Barbados, Belize, British Virgin Islands, Dominica, the Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, Netherlands Antilles, St.Kitts-Nevis, St. Lucia, St. Vincent and The Grenadines, Trinidad and Tobago. The Initiative came into effect in 1984 and provides duty-free access to the US market for 12 years for all products from the beneficiary countries except textiles and clothing, work gloves, leather apparel, footwear, handbags, luggage, flat goods, canned tuna, petroleum and petroleum products, watches and watch parts. To qualify for preferential access, goods must be exported directly to the US with a minimum of 35 per cent of their value added locally. The Initiative is supported by a $350m aid programme approved in 1982.

South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)

SPARTECA, which came into force in 1981, provides non-reciprocal duty-free access to the Australian and New Zealand markets for a wide range of products, including textiles and footwear, from the island developing countries of the South Pacific Forum (which includes Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa). The agreement is intended to foster economic growth and the expansion of investment in these countries and to promote greater cooperation in the region, particularly in commerce, industry and agriculture.

the reforms made these countries' economies more open and outward-oriented, the programmes did not bring sufficient external resources or allow the countries adequate time to enable them to build enough new production capacity to take full advantage of the marketing opportunities available abroad.

7.34 This resource constraint was not experienced to anything like the same extent by the more successful economies. But on occasions even they suffered, like others, from the very mobility of international funds.

As far as direct investment is concerned, this mobility was specially apparent in transnational corporation activities in the free trade zones which many developing country governments established in the 1980s or earlier.

7.35 Although it has not yet had any significant impact on their development, developing countries may have increasing difficulty in meeting environmental requirements for goods they wish to export. Quite apart from the activities of consumer groups in developed countries, the spectre of global warming means that they may find it difficult to establish smoke-stack industries to produce for export. This will follow from the demands on developing countries to raise environmental standards, as this will inflate their costs unless they can get access to more energy efficient and environmentally efficient technologies (whose operation needs higher skills), and either more funds to buy the technology or foreign investment to transfer it.

7.36 The increasing degree to which bilateral assistance for the export (and other) sectors of many developing countries depends on political and other non-economic factors has also influenced recipient countries' development. Projects are sometimes refused assistance because of potential competition with developed countries' production or because they are too small to accord with the aid donors' administrative procedures. Development can therefore be distorted by non-economic factors. And despite agreement on principles to guide member countries of the Development Assistance Committee in the use of tied or partially tied official development assistance and associated financing so as to increase transparency and reduce distortions to trade and aid, the trade-aid provisions of some countries still leave much room for improvement if they are to accord with the development priorities of recipient countries.

7.37 But politics affects trade and therefore development much more directly through the influence of producers' associations and other pressure groups. It is these which have led to the aggressive and questionable use of anti-dumping provisions, and to the 'grey area', extra-GATT, protective measures masquerading as 'voluntary' export restraints and 'orderly' marketing arrangements. The intensification of these techniques and measures in the 1980s harmed development considerably. They have been given freer rein by the changing nature of the trading environment. During the 1980s this became increasingly dominated by unilateral ad hoc pressures dictated by political power based on economic strength, rather than by multilaterally agreed principles and rules.

7.38 The net result of these factors is that many developing countries have had increasing difficulty in earning sufficient foreign exchange to be able to acquire enough of the foreign goods and services to transform their economies and spearhead development. Nor have they been able to acquire them through other means (such as by credits, direct investment or official development assistance).

A New Environment for International Trade

7.39 The strength of international trade at a global level during most years since the early 1980s belies the weakness and fragility of the system on which it depends. It also masks the unevenness of different countries' trading performances and the extent to which those wishing to improve their performance are dependent on a better trading environment.

7.40 We see that better environment as being composed principally of two elements. The first is more open markets (especially in the developed countries) through a reduction in all types of trade barrier—official and unofficial, tariff and non-tariff. The second element is strict adherence to multilaterally agreed rules on the conduct of international trade, based on universally accepted principles providing more transparent, predictable and non-discriminatory access to markets.

7.41 If these criteria are to be fulfilled, it is essential that the Uruguay Round is brought to a successful conclusion. At present it is still in danger. Although intensive consultations by the GATT Director-General in the early part of 1991 did establish a basis for restarting the Round, when and whether it can be completed depends on events outside Geneva. The first hurdle has been successfully overcome with Congressional approval in late May of the US Administration's request for a two year extension of the 'fast track' authority from 1 June 1991. A second and in some ways related factor is the timing and outcome of the European Community's internal processes for reforming its Common Agricultural Policy, now underway.

7.42 Agriculture still provides one of the keys to the Round's outcome. Here we believe it essential for the European Community to improve its offer by further reducing internal support measures (and moving progressively towards a system which assists farmers directly and without distorting international trade), by increasing market access (and moving progressively towards tariffication), and by very considerably cutting export subsidies. This should provide a sufficient basis for the United States and the developed and developing country 'fair' traders of the Cairns Group to enter into negotiations. But if a settlement in agriculture is to be acceptable to all, it will be essential to build into the agreement a set of special provisions in respect of the adjustment needs of developing countries, especially those which are net importers of food.

7.43 Substantive and balanced agreements are also needed on a number of other core issues. They include textiles and clothing, for which more liberal offers by developed countries on market access are required (especially by the United States), together with agreement that the sector be brought within the ambit of GATT principles and rules within ten years at most.

7.44 Allied to this we consider that there should be more flexibility in resolving outstanding issues concerned with the safeguards provision and the subsidy code. The EC should be prepared to withdraw its demand for selectivity in safeguards—even on a limited basis—provided that at the same time other parties accept the necessity for stricter disciplines regarding the terms on which subsidies can be permitted without invoking countervailing measures. But again we must emphasise the need for developing countries to be given adequate time to implement such obligations and for least developed countries to be allowed to waive their commitments if desired.

7.45 As regards the 'new' issues, we consider that an agreement on trade in counterfeit goods is highly desirable within the GATT. We are much less sure that this forum, as presently constituted, has the capacity—or is indeed appropriate—to administer an agreement on trade-related aspects of intellectual property rights, as these are often inextricably linked to other aspects of intellectual property. We do, however, believe it is important that any agreement on this item provides adequate safeguards for the development aspirations of less developed countries. This may require a patent system which takes account of developmental needs and ensures that licences do not overly impede technology transfer. On trade-related investment measures, we recognise that more work still needs to be done on the coverage of any agreement and on the level of disciplines it should enforce on such measures. But we would emphasise that prohibiting some investment measures could inhibit development. Developing countries should therefore be given adequate time to accede to any agreement which is reached.

7.46 With regard to trade in services, we accept the desirability of an umbrella agreement which would provide a framework of general obligations and disciplines to be applied by acceding parties to trade in all types of services. But we doubt whether in this Round it is realistic to pursue the detailed sectoral annexes which will eventually be required. If and when they are formulated, however, it will be vital for developing countries that their needs and aspirations are taken fully into account. This will be especially important in respect of trade in labour services.

7.47 Reverting to the issues of regionalism, we see no realistic possibility of the trend to establishing and strengthening regional groups being reversed. This will be no bad thing provided such groups do not damage multilateralism in general and GATT rules and disciplines in particular; and that they create more trade than they divert. In other words, regionalism should enhance (albeit indirectly) the welfare of third parties as well as of members.

7.48 We note that the completion of the Single European Market scheduled for 1992 should increase trade for general benefit, worldwide, although the possible erection of external barriers, formal or informal, could further divert trade away from third parties. Whatever the outcome, the event will be of some importance for developing countries. It has been calculated that as a result they should be able to increase their exports to the Community by 1.5 per cent. Exports of primary products should rise by 4.6 per cent, or 2.9 per cent excluding petroleum. For manufactured goods, on the other hand, trade diversion may be greater than trade creation.

7.49 The impact on individual countries' exports will differ greatly. Certain small countries such as those in the Windward Islands in the Caribbean, whose main export—bananas—at present receives preferential treatment in the United Kingdom market, are likely to be fundamentally affected. Cane sugar is another commodity where the special arrangements for ACP countries will be difficult to maintain as a result of the free circulation of goods after 1992. In both cases compensatory measures will be needed, either by an increase in Community aid so as to enable the countries concerned to diversify their near-monoculture economies, or by direct income support for the individual exporters, or by balance of payments support for the countries.

7.50 As regards trade in manufactures, the replacement of national quotas by Community ones will be of some significance to exporters of textiles and clothing and, other things being equal, might lead to some liberalisation. (What happens to the Multifibre Arrangement will, however, be of very much greater importance.) But for most other products, ranging from motor vehicles and consumer electronics to footwear, it is likely to mean an extension of protection. The newly industrialising countries may be especially affected.

7.51 Overall, there is a need for continuing close attention, through European Community/ACP contacts and otherwise (including GATT's new Trade Policy Review Mechanism), to the impact of the Single European Market, with a view in particular to avoiding unintended adverse impacts.

7.52 In the longer run, the recent economic and political changes in

Eastern Europe may promote the spread of regionalism in Europe—an extension of the idea of a European Economic Space, for example—with significant effects on world trading patterns. Until recently these countries traded mainly with the Soviet Union and each other. Their payments and industrial arrangements reinforced their political and geographical propinquity. But the breakdown of the CMEA system has altered prospects fundamentally. During the 1990s Eastern Europe (and even the Soviet Union) seems likely to develop a greater export and import capacity. This will, in effect, bring 80 million middle income producers and consumers directly into the world trading system for the first time since 1939.

7.53 Some developing countries are likely to benefit from Eastern Europe's hitherto suppressed demand for consumer goods, others may suffer from greater competition in export markets. The first group includes the newly industrialising countries and those, such as India, which also have a sufficiently diversified production base and established trade links to be able to benefit from additional demand. Experience in establishing joint ventures or ability to provide long-term low-interest loans would also be useful.

7.54 Equally important—at least in long-term prospect—the 1990s may see a greater trend towards regional groupings among developing countries. At present, South-South trade is much smaller than might be expected. But this may not always be the case. In Africa plans are afoot, albeit only embryonically as yet, for a free trade arrangement among most of the continent's countries. Similar developments are in prospect in Latin America and Asia, in some cases—as with the plan for an East Asian Economic Grouping—in collaboration with developed countries. We support such developments as a way to stimulate economic growth and development. They may be particularly helpful in stimulating inflows of private and official capital and in maximising the benefits which these can bring. They may also serve as the basis for intra-regional integrating instruments. But as with other groupings, we must emphasise that they should be seen as a complement to multilateralism, and not as a rival to or substitute for it, or as a means of slowing progress in it. If regionalism is not to constrain the development of the world in general, a strong, vibrant multilateral trading system remains essential.