

TRADE REFORM

LESSONS FROM EIGHT COUNTRIES

Edited by
Geoffrey Shepherd
and
Carlos Geraldo Langoni



International Center for Economic Growth

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Preface

Throughout the developing world countries are abandoning systems of extensive protection and are opening up to foreign trade, as they recognize that restrictive trade policies have been costly to their economies, underwriting inefficiency and limiting growth. The question asked is not whether restrictive trade regimes should be reformed but what measures should be taken, how rapidly, and in what sequence to achieve trade reform without excessive transition costs.

Analyzing the experience of eight countries that have attempted trade reform during the past four decades, the authors of this book find a number of lessons for successful liberalization. One recurrent theme is the importance of monetary and fiscal policy. Radical reform of the foreign-exchange regime, undergirded by policies of economic stabilization, has initiated every significant and lasting trade liberalization.

Some surprising lessons emerge from the country studies: Although adjustment costs—in particular, possible unemployment—are to be expected in the transition from restricted to freer trade, there is little evidence to suggest that the liberalization episodes studied have led to net unemployment, even in the manufacturing sector. Moreover, major initial relaxation of quantitative restrictions on imports—a key step in sustaining reform attempts—appears typically to have been achieved with few transitory costs and with a major increase in economic growth.

This book grew out of a conference held in 1988 in São Paulo, Brazil, to consider some of the results of a massive World Bank research project on implementing trade reform. The conclusions of this project are powerful and will have a forceful impact on a world economy already inclined to seek the benefits of open trade. The International Center for

Economic Growth is pleased to publish this volume, in which the lessons of liberalization experience are made accessible to anyone who wants to understand the relation between policy and outcome in trade reform.

Nicolás Ardito-Barletta
General Director
International Center for Economic Growth

Panama City, Panama
January 1991

Editors' Preface

This volume is based on the papers presented at a conference entitled "Por uma Nova Política de Comércio Exterior do Brasil" (Toward a New Trade Policy for Brazil). The conference was held at the Maksoud Plaza Hotel, São Paulo, Brazil, on April 11 and 12, 1988. It was jointly organized by the Center for World Economy, of the Fundação Getúlio Vargas (Rio de Janeiro), and the World Bank (Washington, D.C.).

We are grateful for the contributions made to the conference by those acting as discussants, chairmen, and roundtable participants:

- Mário Amato, president, Federação das Indústrias do Estado de São Paulo
- Renato Baumann das Neves, external-sector coordinator, IPLAN/Instituto de Planejamento, Brasília
- Alfredo Baumgarten, Fundação Getúlio Vargas, Rio de Janeiro
- Luiz Gonzaga Belluzo, Fundação de Apoio a Pesquisa do Estado de São Paulo
- Carlos Alberto Primo Braga, professor, Fundação Instituto de Pesquisas Econômicas, Universidade de São Paulo
- Helson Braga, Instituto de Planejamento Econômico e Social, Rio de Janeiro

- Luiz Carlos Bresser Pereira, director, Cia. Pão de Açúcar, São Paulo, and professor, Fundação Getúlio Vargas.
- José L. Carvalho, professor, Universidade Santa Ursula, Rio de Janeiro
- Armeane M. Choksi, director, Brazil Department, the World Bank, Washington, D.C.
- Roberto Gianetti da Fonseca, vice president, Cotia Finance Co. Ltd., São Paulo
- Samuel Pinheiro Guimarães, chief of the Economics Department, Ministry of External Relations, Brasília
- Roberto d'Utra Vaz, vice president, Cia. IOCHPE de Participações, São Paulo
- Norberto Ingo Zadrozny, president, Associação de Comércio Exterior do Brasil, Rio de Janeiro

We owe an important debt to our colleague, Antonio Pimenta-Neves, of the World Bank, who did much to set up and organize the conference.

We would also like to acknowledge the support provided by the *Gazeta Mercantil*, the leading Brazilian business newspaper, in publicizing the conference.

The findings, interpretations, and conclusions expressed in this book are entirely those of the authors and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent.

Geoffrey Shepherd
Carlos Geraldo Langoni

Washington, D.C.
Rio de Janeiro
January 1991

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Contents

List of Tables	vii
List of Figures	ix
Preface	xi
Editors' Preface	xiii
Chapter 1 Introduction <i>Geoffrey Shepherd and Carlos Geraldo Langoni</i>	1
Chapter 2 The Multilateral Trade Negotiations and Brazilian Trade-Policy Reform <i>Paulo Tarso Flecha de Lima</i>	11
Chapter 3 Brazil: Precedents and Prospects in Foreign Trade <i>Donald Coes</i>	15
Chapter 4 Argentina: Trade Reform, 1976–1982 <i>Domingo F. Cavallo</i>	27
Chapter 5 Chile: Trade Liberalization since 1974 <i>Dominique Hachette</i>	41
Chapter 6 Greece: The First Reform Attempt, 1953 <i>Demetris Papageorgiou</i>	55

Chapter 7	Spain: Trade Liberalization after 1959 <i>Guillermo de la Dehesa</i>	73
Chapter 8	Yugoslavia: Trade Reform in a Socialist Country, 1965–1975 <i>Oli Havrylyshyn</i>	89
Chapter 9	East Asia: Trade Reform in Korea and Singapore <i>Richard H. Snape</i>	103
Chapter 10	The Lessons of Experience: An Overview <i>Michael Michaely</i>	117
	About the Contributors	127
	Index	131

List of Tables

Table 3.1	Import Liberalization and Employment in Manufacturing, 1967–1974	23
Table 6.1	Foreign Assistance from Marshall Plan and Mutual Security Agency 1949–1953	56
Table 6.2	Main Monetary and Fiscal Variables, 1951–1957	57
Table 6.3	GDP Growth and Structure, 1951–1957	58
Table 6.4	Investment, Capacity Utilization, and Profitability, 1951–1957	58
Table 6.5	Prereform Tariffs and Excise Taxes, 1953	59
Table 6.6	Special Levies on Imports, 1953	59
Table 6.7	Direct Export Subsidies, 1953	60
Table 6.8	Number of Products in Import Tables, 1953–1975	62
Table 6.9	Structure of Imports, 1952–1956	64
Table 6.10	Growth of Imports and Exports, and Openness of the Economy, 1953–1956	64

Table 6.11	The External Sector, 1951–1957	65
Table 6.12	Inflation Rates in Greece and in Nine Main Trading Partners, 1951–1958	66
Table 6.13	Increase in Minimum Wage of Males and Females in Industrial Sector, 1952–1956	67
Table 6.14	Product per Worker and Hours Worked per Week in Manufacturing Industries, 1953–1956	67
Table 6.15	Government Budget Accounts Affected by Liberalization, 1950–1956	68
Table 6.16	Chronology of Policy Changes, 1953–1954	69
Table 6.17	Main Characteristics of the 1953 Episode	70
Table 8.1	Evolution of Trade Policy, 1946–1986	90
Table 8.2	Overview of Economic Growth, 1954–1985	93
Table 8.3	Export Subsidies as Percentage of Exports, 1957–1980	98
Table 8.4	Yugoslavia and South Korea: Heavy and Light Goods as Percentage of Manufactured-Goods Exports, 1965 and 1985	99
Table 9.1	Korea: Exchange Rates and Index of Competitiveness, 1962–1983	107
Table 9.2	Korea (1968), Singapore (1967), Argentina (1969): Effective Rates of Protection against Imports and Effective Export Subsidies	109
Table 10.1	Episodes of Liberalization, 1950–1984	118

List of Figures

Figure 3.1	The Real Exchange Rate, January 1964–February 1987	20
Figure 4.1	Foreign and Domestic Terms of Trade, 1913–1984	28
Figure 4.2	M1 and M3 as Proportion of GDP in Current Prices, 1913–1984	29
Figure 4.3	Ratio of the Fiscal Deficit to GDP, 1913–1984	29
Figure 4.4	Capital Flows, 1976–1981	33
Figure 4.5	Fiscal Deficit and Source of Financing, 1970–1982	35
Figure 4.6	Real Bilateral Exchange Rate, 1974–1985	36
Figure 4.7	Real Multilateral Exchange Rate, 1975–1980	37
Figure 4.8	Actual and Simulated Real Exchange Rate, 1976–1985	38
Figure 7.1	Long-Term Growth, 1941–1986	74
Figure 7.2	Trade-Liberalization Index, 1960–1986	75
Figure 7.3	Openness of the Economy, 1964–1986	86

Figure 7.4 Liberalization and the Current Account, 1960–1986 87

Figure 9.1 Korea: Index of Trade Liberalization, 1955–1984 105

Introduction

The superiority of free trade has been demonstrated by numerous empirical studies and has become increasingly accepted by policy makers in developing countries.¹ The problem of transition from a restrictive regime to one of liberalized trade, however, has not been studied extensively; and little is known about the essential attributes of a successful policy path, particularly about issues of timing and sequencing in the reform of trade policy. These issues were the focus of a research project whose conclusions are outlined in this book.

All but one of the chapters in this volume summarize some of the findings of the project, "The Timing and Sequencing of a Trade Liberalization Policy," conducted by the World Bank from 1984 to 1988 and drawing on the experience of past trade-reform efforts in developing countries as a source of lessons about how countries might best go about designing the trade-reform process. The creators of the project had in mind two meanings of freer trade (or trade liberalization) as the objective toward which reform was aimed: first, a reduction in the levels and dispersion of rates of protection; second, a change in the form of protection from quantitative restrictions to tariffs. These two elements often appear together, but occasionally they may be in conflict.

The Research Project

The questions posed by the project were: What are the characteristics of successful and unsuccessful trade liberalization attempts; and how,

according to past experience, can trade liberalization best be implemented? The project identified several major issues, to some extent interrelated, as playing an important role in determining the fate of any attempted liberalization:

- What is the appropriate speed and intensity of liberalization?
- Is it desirable to have a separate policy stage of replacing nonprice forms of trade restrictions with price measures?
- Is it desirable to treat productive activities uniformly, during the process of trade liberalization, or differentially?
- If a uniform treatment is indicated, how should it be formulated?
- On what pattern of the economy's performance is the fate of a liberalization policy likely to hinge?
- Is it desirable to have a stage of export promotion? If so, what should be its timing in relationship to import liberalization?
- What are the appropriate circumstances for the introduction of a liberalization policy?
- How important are exogenous developments in determining the likelihood that liberalization will be sustainable?
- Finally, what other policy measures are important, in either their presence or their absence, for a successful policy of trade liberalization?

Looming behind many of these issues are the potential adjustment costs of a liberalization policy and, in particular, the possible impact of trade liberalization on the unemployment of labor. The World Bank study also explicitly addressed this crucial issue.

The research project investigated the experience of liberalization in the postwar world and covered almost all episodes that could be found in developing countries. These experiences were analyzed in nineteen country studies, covering thirty-seven separate liberalization episodes, following a common pattern of inquiry. The project has yielded inferences not only at the level of the individual studies but also in a synthesis study that compared the patterns observed in the thirty-seven