TRADE BARRIERS FACING DEVELOPING COUNTRIES

Alexander J. Yeats

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Commercial Policy Measures and Shipping

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Foreword by
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Foreword

One of the basic problems of the international economy today is how the economies of the less developed countries (LDCs) could be further integrated into the global economic division of labour for manufactured goods and not only, as now, for raw materials. It is well known that severe obstacles and problems connected with such an integration exist both within these countries themselves and on the international markets. In fact, the most important contribution that the developed countries could make towards the less developed countries is precisely to provide access to markets for manufactured goods.

Alexander Yeats presents in this book a penetrating study of the obstacles on the international markets to an integration of this kind. The study covers not only tariff and nontariff barriers erected by the industrial countries, but also institutional arrangements in international shipping. The most distinguished characteristic of this important book is the relentless attempts to estimate the quantitative size and spread of these various obstacles, as a basis for an evaluation of the economic benefits to the LDCs from their removal. This makes Alexander Yeats's work an important contribution to the international discussion of the potential consequences of changes in the world economic order—a discussion that no doubt has demonstrated the need for this type of empirical research.

The book is the first report from an ongoing research project on the New World Economic Order by researchers at the Institute for International Economic Studies of the University of Stockholm, financed by the Bank of Sweden's Tercentenary Foundation. We are proud that the publication of our studies can start with such an excellent piece of work.

Stockholm *Assar Lindbeck*
May 1978

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In the course of my work I have been able to draw on the advice of several individuals at the Institute and the United Nations Conference on Trade and Development. Professor Odd Gulbrandsen read earlier versions of most chapters and was an invaluable source of criticism and constructive comments. I have also drawn from several previous studies written with Professor Gary Sampson, as well as Dr Andrzej Olechowski's expertise on empirical analysis of trade barriers. Several individuals at UNCTAD including Ho Dac Tuong, Jack I. Stone, Alfred Maizels, Craig MacPhee and Robert Ramsey, commented on specific aspects, as did Marian Radetzki, Carl Hamilton, Sven Grassman, Arne Jon Isachsen and several other colleagues at the Institute. Special thanks are also due to members of the secretarial staff at the Institute who prepared the manuscript.

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March 1978

Alexander J. Yeats

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1 Trade Liberalisation and the New International Order

For more than two decades, the United Nations and its agencies have provided a major international forum for the study, debate, and implementation of measures to assist the poorer countries of the world in their development efforts. For example, in 1964 the first session of the United Nations Conference on Trade and Development (UNCTAD) received Raul Prebisch's report on the requirements of a new trade policy for development.[1] A major feature of the report was a call for the establishment of a new international order which would be more responsive to both global needs, and the needs of developing countries. The proposed system contained suggestions which required basic changes in the framework of trade and finance, as well as other aspects of international relations between developed and developing countries.

While the initial session of UNCTAD had little immediate impact, many of Prebisch's recommendations were later incorporated in the International Development Strategy for the Second United Nations Development Decade.[2] The central concept of the Strategy focused on a world order in which economic growth was transmitted to less developed countries (LDCs) through trade, technology, and development aid from industrial countries. This system implied that economic expansion in developed nations would lead to increased demand for developing country exports, thus increasing the LDCs' real income and capacity to purchase equipment required for industrialisation.

This concept of interdependence and of the process by which growth could be transmitted from rich to poor countries required the removal of artificial barriers to trade, technological transfer, investment, and the regulation of restrictive practices which hindered these flows. The key policy prescriptions of the Strategy were, therefore, focused on measures which would improve access to developed countries' markets, promote the transfer of technology on fair and reasonable terms, and achieve a substantial expansion in the flow of financial resources for development. The quantitative targets set by the Strategy included those for growth in the foreign trade of developing countries, and in the flow of financial resources for development.[3]

Several developments in the early 1970s clearly demonstrated that some important assumptions of the Strategy were invalid. First, the growth of industrial countries, which had been sustained at relatively high rates during the previous two decades, fell off sharply in 1974 and has failed to return to previous levels. This retardation in the economic expansion of industrial countries undermined the central concept of growth transmission in the Strategy. Furthermore, the key recommendations on aid targets, improving the transfer of technology, and the reduction of trade barriers facing LDC exports, went largely unimplemented. Trade relations of many developing countries were also increasingly influenced by multinational corporations whose activities have the potential to distort the industrialisation process.

Due to the growing deficiencies in the Strategy, important developments resulted from initiatives taken by the Sixth Special Session of the United Nations General Assembly in the Spring of 1974. On May 1 the Assembly adopted a Declaration and Programme of Action on the Establishment of a New International Economic Order which constituted a formal recognition by the world body of the need for basic institutional changes.[4] The Declaration begins by stating that its aim is 'to correct inequalities and redress existing injustices and ensure steadily accelerating economic development, peace and justice for present and future generations'. The document incorporates a set of 'inherent' principles stressing national sovereignty and equality of states, and ends by asserting that 'the present Declaration shall be one of the most important bases of economic relations between all peoples of all nations'. The Programme of Action, which accompanied the Declaration, proposed urgent measures on raw materials and primary commodities, the international monetary system and development finance, industrialisation, transfer of technology, transnational corporations, and the promotion of cooperation among developing countries. The Charter of Economic Rights and Duties of States, adopted by the General Assembly some months later, lent support to the concept of the need for a changed order.[5]

BACKGROUND DEVELOPMENTS

Criticism of the current state of the world economy centres on a number of inequalities which operate to the detriment of the developing countries. For example, the differential in per capita incomes between the richest and poorest nations is very large. Of the 4 billion people in the world today, (here, and throughout the book, 'billion' means American billion, i.e. one thousand million) 1·2 billion live in countries with per capita incomes of less than $200 a year. If China were included in this total, the number would increase to 2 billion. As such, half the world's population lives on a subsistence income of less than 50 cents a day. As for the other half, about 1·3 billion live in countries with an income of between $200 and $2000. Thus, the abject poverty in many developing countries places people below the minimum level of subsistence with the result that famine, disease, and malnutrition are a constant threat to existence.

Gross differences also exist in other measures of economic well-being. At present, life expectancy in some of the advanced developed countries reaches well over 70 years, yet a number of developing countries have not been able to attain half this level. Educational opportunities also vary widely between developed and developing nations. In North America and Europe, literacy rates are well over 90 per cent, but in many of the developing countries of Asia and Africa more than 90 to 95 per cent of the population can neither read nor write. Gross differences exist in employment opportunities between the developed and developing world. While unemployment rates for many industrial countries typically average between 4 to 6 per cent, Algeria, Bolivia, Jamaica, Surinam, and a number of other developing countries report that over 20 per cent of their population is without gainful employment.

Recent developments have also made it clear that citizens of the industrialised countries are not being well served by the existing economic order. The international monetary system, which was based on fixed parities and the convertibility of currencies into gold, has largely collapsed, with the result that unstable exchange rates and disequilibriating movements of capital are a common occurrence. High rates of inflation persist in many developed nations in spite of continuing conditions of slack economic activity, while unemployment remains high by historical standards. Many industrial countries have still not fully adjusted to the shock of markedly higher energy costs which resulted from the Organization of Petroleum Exporting Countries' (OPEC) price increases. The socialist countries have not been without their share of problems. For example, the debt position of some of the socialist countries in Eastern Europe is unprecedented, and debt service is fast becoming a serious strain on some economies. Also, many of these nations have been showing an increased dependence on Western technology with the result that conditions for improved access and transfer must be established. Due to this increasing *interdependence* of the socialist, market economy, and third world countries, new institutions must evolve, or adapt, to accommodate international relations between countries or country groups. It is precisely to this problem that many of the deliberations on the new world economic order are addressed.

ESSENTIALS OF THE NEW ECONOMIC ORDER

The basic changes in the framework of international relations which were envisioned by the General Assembly are outlined in the Declaration and Programme of Action on the Establishment of a New International Economic Order. The programme clearly places emphasis on structural changes in international institutions as a vehicle for achieving its goals, rather than policies enacted within the framework of existing institutions. While many specific proposals concerning the New International Economic Order have been modified or changed during the debate on these topics, the following are among the major points which appear to have carried consistently through the discussion:

—An improvement in the terms of trade is required for developing countries' exports of commodities and other raw materials, along with a stabilisation programme for commodity prices. These objectives are to be achieved by various measures classified under the general heading of an Integrated Programme for Commodities which includes proposals for commodity cartels, guaranteed minimum prices through industrial country purchase commitments, and large-scale buffer stocks. Plans are also included for indexing raw material prices through links to general price indices, or indices covering manufactures.[6] Measures to increase demand for commodities, by making substitution with artificial products more difficult, have been discussed.

—An increase in developing countries' share of world industrial production to about 25 per cent by the end of the century. This is to be achieved by a permanent reduction of direct and indirect trade barriers, by phasing out certain industries in the industrial countries, by facilitating the transfer of technology, by stimulating the flow of direct investment, and by increasing development aid. The Programme of Action also stresses the need for a vastly increased LDC role in world shipping.

—Increased financial transfers to the developing countries are required with a view toward covering the basic needs of the inhabitants. Related proposals call for a greatly changed International Monetary Fund with both expanded and easier LDC access to credit facilities, and to new liquidity in the form of special drawing rights.

—A major expansion of trade and other contacts is required between the developing countries and socialist countries of Eastern Europe. Also, cooperation among developing countries themselves must be greatly increased. A major element in this effort would be the establishment of a system of preferences for developing country intra-trade.

A new structure for commodity trade

One of the areas slated for major institutional reform centres on the primary commodity trade of developing countries. Even if petroleum is excluded, almost 70 per cent of developing country export earnings originates from the sale of primary commodities. However, on an individual country basis the reliance can be much greater than indicated by this overall average. This is particularly true for some of the poorest developing countries whose export earnings may be almost entirely dependent on one or two major commodities.[7] In these cases, the prosperity of the commodity sector is often a key determinant of the country's economic well-being. It can be a major element influencing the balance of payments, the level of external debt, the domestic budget, and the probability of success for the overall development effort. However, the volatility of most commodity prices on world markets, as well as deteriorating terms of trade relative to manufactures, has been a major problem for development planning and finance.

Previous international action in the area of primary commodities has reflected the view that market intervention should occur only under limited circumstances, and that the primary objective should be the control of excessive price fluctuations rather than any attempt to influence long-term trends. The Havana Charter adopted several measures intended to modify price fluctuations, although this document stressed that international commodity agreements should be confined to short-term protective measures.[8] Furthermore, while the General Agreement on Tariffs and Trade (GATT) is the primary institution concerned with the regulation of international trade, there is no provision for commodity agreements under its charter. While several attempts have been made, the developed country signatories have refused to bring commodity agreements within GATT's framework.

In retrospect, there can be few who are satisfied with the performance of commodity prices or trade over the last decade. During this period, developing countries have been able to make only modest gains in their efforts to shift from unprocessed to processed product exports. Tariffs and other trade restraints in industrial markets have been largely responsible for this lack of progress. Fluctuations in commodity prices also continue to have a serious disequilibriating effect on both developed and developing countries. For example, over the period between 1971 and 1974 the UNCTAD index of agricultural raw materials prices rose more than 100 points from a base of 111 to a peak of 236, and then began a descent which brought the index close to its earlier levels. Mineral prices experienced an even wider fluctuation, rising from a value of 131 to over 400 points, and then dropping almost as sharply. The rapid run-up in commodity prices had a serious inflationary influence on developed economies, while the inflated prices of 1974–5 caused many LDCs to invest in substantial over-capacity which has had a protracted depressant effect on commodity prices.

The integrated programme for commodities

Due to the failure of previous efforts, and the pressing need of developing countries for concrete action in the area of commodities, the UNCTAD Secretariat has advanced a comprehensive strategy in the form of an integrated programme for commodities.[9] Essentially, the integrated programme covers the following five major elements:

(1) Internationally owned stocks covering a wide range of commodities;
(2) A common financial fund that will make resources available for the acquisition of stocks;
(3) The institution, in circumstances which justify it, of a system of medium- to long-term commitments to purchase and sell commodities at agreed prices;
(4) The institution of measures to provide compensatory financing to producers to cover shortfalls in export earnings; and