



# **Trade Policy, Protectionism AND THE Third World**

**MICHAEL DAVENPORT**



**CROOM HELM**

**London • Sydney • Dover, New Hampshire**

©1986 Michael Davenport

Croom Helm Ltd, Provident House, Burrell Row,  
Beckenham, Kent BR3 1AT

Croom Helm Australia Pty Ltd, Suite 4, 6th Floor,  
64-76 Kippax Street, Surry Hills, NSW 2010, Australia

**British Library Cataloguing in Publication Data**

**Davenport, Michael**

Trade policy, protectionism and the third  
world.

1. European Economic Community countries

– Foreign economic relations – Asia,  
Southeastern 2. Asia, Southeastern –

Foreign economic relations – European  
Economic Community countries

I. Title

382'.094'059 HC241.25.A785

ISBN 0-7099-4516-7

Croom Helm, 51 Washington Street, Dover,  
New Hampshire 03820, USA

**Library of Congress Cataloging-in-Publication Data**

**Davenport, Michael, 1940–**

Trade policy, protectionism, and the third world.

Bibliography p.139

Includes index.

1. Tariff preferences—European economic community  
countries. 2. European economic community countries—  
commerce—developing countries. 3. Developing countries

I. Title.

HF2039.5.Z7D38'986 382.7'53 86-6192

ISBN 0-7099-4516-7

**Printed and bound in Great Britain  
by Billing & Sons Limited, Worcester.**

**TRADE POLICY, PROTECTIONISM  
AND THE THIRD WORLD**

for Tan Lian Choo

## PREFACE

I was fortunate to spend the academic year of 1984-1985 as visiting professor in the Department of Economics at the National University of Singapore. I arrived there directly from Bologna in Italy where I had taught an international trade course. In Italy I had retailed the conventional view, based on a number of empirical studies, that the various Generalized Systems of Preference, and in particular those of the United States and the European Community, were so limited in product coverage and so hedged about with quantitative limits and "rules of origin" that their contribution to exports of manufactures, and thereby the growth of the manufacturing sector in the developing countries, was of little practical significance. My arrival in Singapore more or less coincided with the debate in United States Congress over how that country's GSP might be restricted, if indeed renewed at all, and growing pressures in Europe for additional limits on the scope of the EEC GSP. The threats to these GSPs led to considerable alarm in Singapore, Malaysia and other member countries of the Association of East Asian Nations. The schemes were clearly of much greater significance to the businessmen and politicians of South East Asia than could have been expected from the results of the academic studies. This study is an attempt to get to grips with this discrepancy.

## ACKNOWLEDGEMENTS

This study owes much to the generous help of the personnel of the European Commission's Delegation for South East Asia in Bangkok, and in particular to Mrs. Sirinuj Sutirasakul, Tom Verhauf and Endymion Wilkinson. The economics seminars at the National University of Singapore and the Institute for South East Asian Studies in Singapore in the academic year 1984-85 yielded useful discussions.

## INTRODUCTORY NOTES

1. Most of the values in this report are expressed in eua, the European unit of account, or its successor, the ecu. The ecu is a basket unit, based on a certain quantity of each Community currency, where the currency shares are based on gross national product and shares in intra-Community trade over the period 1969-73. The average annual values of the United States dollar against the eua or ecu were as follows:

### \$US equivalent in eua/ecu

1971	0.954
1972	0.891
1973	0.812
1974	0.836
1975	0.806
1976	0.894
1977	0.876
1978	0.785
1979	0.730
1980	0.718
1981	0.896
1982	1.021
1983	1.128

2. Since detailed data on Brunei's trade and use of the EEC Generalized System of Preference over the period studied were not available, for the purposes of the study the ASEAN countries comprise the original membership, Thailand, Indonesia, Malaysia, Singapore and the Philippines.

3. We use the familiar but strictly incorrect terms, the "EEC" or the "Community", in place of the ponderous "European Communities".



## CONTENTS

List of Tables	
Preface	
Acknowledgements	
Introductory Notes	
1. INTRODUCTION.....	1
2. DEVELOPMENT OF THE COMMUNITY'S GSP.....	7
Trends in EEC Imports from the Developing Countries.....	7
How the EEC GSP Works.....	11
The Utilisation of the EEC GSP.....	21
Beneficiary Country Complaints about the EEC GSP.....	24
3. THE EEC GSP AND THE ASEAN COUNTRIES.....	29
Trends in ASEAN-EEC Trade.....	29
The Common Agricultural Policy and ASEAN....	31
Protection of Processed Agricultural Products	34
The GSP and ASEAN Manufactured Exports.....	36
The ASEAN Countries in the Ranking of GSP Beneficiaries.....	39
4. THEORETICAL CONSIDERATIONS.....	45
The Static Model.....	46
Quantitative Restrictions.....	51
Substitutability between Different Sources and Goods.....	52
Effective vs. Nominal Rates of Protection...	54
Dynamic Effects.....	56
Appendix	
The Static Theory of Tariff Preference.....	60

5. QUANTIFYING THE EFFECTS OF TARIFF PREFERENCES.....	65
The Methodology used in this study.....	68
Textiles and Clothing, a special case.....	72
The Micro-analysis.....	75
6. THE PARAMETER ASSUMPTIONS.....	79
Estimates of the Elasticity of Supply.....	79
Estimates of Import Demand Elasticities.....	85
The Allocation of Economic Rent.....	87
7. RESULTS: THE MACROECONOMIC ANALYSIS.....	92
The Estimation of GSP Preference Margins....	92
The Effects of the GSP: Qualifications and Review of Concepts.....	93
Effects by Broad Economic Category:	
Agriculture.....	98
Industrial Products excluding Textiles....	98
Textiles and Clothing.....	100
Aggregate Results.....	102
Effects on the ASEAN Countries.....	104
Sensitivity Analysis.....	107
8. RESULTS: THE MICROECONOMIC ANALYSIS.....	110
Methodology .....	110
Results.....	113
Conclusions from the Micro-analysis.....	126
9. FUTURE DEVELOPMENTS IN THE EEC GSP.....	129
Recent Modifications to the EEC GSP.....	129
Enlargement.....	130
The Future of the GSPs.....	132
A Further Round of Multilateral Trade Negotiations.....	133
Implications for the GSP.....	134
The Future of ASEAN and the EEC GSP.....	137
Bibliography.....	139
Index .....	144

## TABLES

1.1	ASEAN's Principal Trading Partners .....	6
2.1	EEC Imports, by source.....	8
2.2	Manufactured Exports in Total Exports....	10
2.3	Growth Rates of EEC Imports by source....	12
2.4	Annual Growth Rates of Textile Imports...	18
2.5	Tariff-Quotas and their Utilisation in the EEC GSP.....	22
3.1	EEC Imports from ASEAN.....	29
3.2	ASEAN Exports to the EEC by commodity group.....	30
3.3	Selected Nominal and Effective Rates of Protection for Processed Agricultural Products.....	35
3.4	Frequency of tariff reimposition on ASEAN Countries.....	36
3.5	Growth Rates of EEC Textile Imports, Total, GSP-covered and GSP-benefiting.....	37
3.6	EEC Imports from ASEAN, share benefiting from GSP.....	38
3.7	Ranking of Beneficiaries in EEC GSP by value of GSP imports.....	40
Appendix tables		
A3.1	Principal Exports of ASEAN Countries, 1980	43
A3.2	Share of Imports of Selected Textiles receiving GSP treatment.....	44
5.1	"Very Sensitive" as percent of GSP- benefiting and GSP-covered Imports.....	72
5.2	Growth Rates of Textile and Clothing Exports to the EEC.....	74
6.1	Aggregate Export Supply Elasticities.....	81
6.2	Weighted Average Estimates of Export Elasticities.....	82

6.3	Long-run Export Supply Elasticities for four ASEAN Countries.....	84
6.4	"Best" Estimates of the Long-run Elasticity of Import Demand.....	86
6.5	Long-run Export Demand and Supply Elasticities assumed for study.....	87
Appendix Table		
A6.1	Some Long-run Commodity Import Demand Elasticities.....	91
7.1	Average Preference Margin on EEC GSP Imports.....	92
7.2	Estimated GSP Effects; Agricultural.....	94
7.3	Estimated GSP Effects; Industrial Goods .	99
7.4	Estimated GSP Effects; Clothing and Textiles.....	101
7.5	Summary of Overall Effects of EEC GSP....	103
7.6	Effects of EEC GSP on ASEAN Countries....	105
7.7	Sensitivity Analysis of the Results.....	108
8.1	Selected Products of Importance in ASEAN Exports.....	111
8.2	Estimates of GSP Effects on Selected Products.....	115

## Chapter One

### INTRODUCTION

Recent years have seen an alarming revival of protectionism among the Western industrialized countries. This has been the response to a decade of persistent economic crises, sluggish growth, industrial decline and rising unemployment. As the two major actors, the European Community and the United States, between them, bear the major responsibility for the breakdown of the liberal world trading system. Japan, which has been roundly condemned for being highly protectionist, has made some, if slow, progress in opening up markets to foreign goods.

Protection in the 1970s and early 1980s has taken the form of replacing free international markets by bilateral agreements, or sometimes unilateral fiat. Imports of "sensitive" products are controlled by non-tariff barriers, including the "orderly marketing agreements", "voluntary export restraints" and other euphemisms for "managed" trade rather than through the escalation of tariff barriers which occurred in the inter-war years. The new protectionism has been partly a response to successive worries about rapid advances in competitiveness first in Japan, later in the newly industrialized countries (NICs), and now in the emerging economies of Asia and, in a few cases, Latin America. Today, however, concern about the displacement of domestic suppliers by other developed countries is an equally powerful force for the restraint of trade.

While the new protectionism has been emerging, the rules of the game have been interpreted more and more flexibly. The Community has been on occasion a willing accomplice, and in some instances the protagonist, in the erosion of the free trading principles which underlie the articles of the General Agreement on Tariffs and Trade (GATT). It used to be

## Introduction

argued that the formation of the Community would give a boost to trade liberalization. In reality, probably the most significant contribution the Community has made to greater freedom of trade beyond its own common tariff wall has been through its existence as a single bargaining unit. This has made possible the multinational Kennedy and Tokyo round negotiations. Without the Community, there would have been no interlocutor of sufficient weight for the United States, which faced with such time-consuming negotiations and the attendant problems of a distrustful and often protectionist Congress, would likely have opted for a bilateral approach to trade negotiations. The trend to bilateralism in international trading relations would now be much more advanced.

Within the Western industrialized bloc the Community instituted the first Generalized System of Preferences (GSP), the Soviet Union having started their GSP some years earlier. However the original idea is associated with the economist, Raul Prebisch, who conceived of a single scheme under which all the industrialized countries as a group would give duty-free access to the manufactured exports of the developing countries. Indeed, it was largely because of the Community's overriding commitments to the associated African, Caribbean and Pacific states (the ACPs) that there are 16 distinct and very different GSP schemes under which the Western industrialized countries independently give limited duty-free access to certain of their markets to different groupings of the developing countries. When it was established, the GSP could be interpreted either as a move towards more liberal trade or, since its very essence is discrimination, a further erosion of GATT principles. Over the 14 years of its history the Community GSP has become increasingly discriminatory, both as regards the treatment of products and of countries, while its benefits more and more resemble the sugar on the bitter pill of protectionism.

In the new more protectionist climate and under relentless pressure to spare European industry from "unfair" competition, it is hardly surprising that the Community should now be discussing how to trim back some of the trade preferences it has been giving to the non-ACP developing countries. Indeed in an ad hoc way these benefits have been substantially curtailed already. Now more radical reforms are being mooted. After all this group of GSP-beneficiaries, mainly South American and Asian coun-

## Introduction

tries, provides a convenient whipping boy. It includes the countries which have penetrated the European markets in manufactures most successfully. An increasing number have incomes per head greater than those in the poorer Community states, even before Spain and Portugal become Community members. Furthermore the countries granted GSP status have always been near the bottom of the Community's "pyramid of preference".

The Community's attachment to its hierarchy of tariff preference existed long before the GSP was instituted. Indeed the GSP was carefully designed so as not to upset it. At the top of this hierarchy, naturally, comes trade between the member states, which is completely free of tariffs. The same is true of trade in manufactures, though not in agricultural goods, with the EFTA countries, Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland. Thirdly come the 64 ACPs. Successive Lomé Conventions have guaranteed unlimited duty-free access for ACP exports of manufactures and (almost all) agricultural goods not covered by the Common Agricultural Policy (CAP). Fourthly come the 14 Mediterranean countries with whom the Community has signed "association" or preferential trade agreements. The next tier consists of the non-ACP developing countries who qualify for GSP treatment. Below the GSP-beneficiaries come the other GATT signatories who qualify for "most favoured nation (mfn) status" This group includes all Western developed countries outside the EEC or EFTA. Finally, at the base of the pyramid, with least favoured nation status are the members of Comecon.

The fundamental character of Community policy vis-a-vis the Third World stems from historical colonial and geopolitical ties. Despite German and Dutch arguments in favour of a global approach, France made the founding of the Community conditional on a special relationship - in effect inclusion in the customs union - for its overseas departments and territories and Algeria, which was then part of metropolitan France. In the Rome Treaty, Article 131 provides for the association of non-European countries and territories, which had "special relations" with the Community member states "to promote economic and social development". France also demanded a special deal for Morocco, Tunisia and Algeria, while Italy wanted one for Libya, and protocols were attached to the Rome Treaty to ensure special access for the exports of these countries into the Community market, pending the signing of

## Introduction

treaties of "association" at a later date. The other founding members acceded, believing that with greater economic leverage, they would have greater political influence over the Mediterranean countries, which appeared both alarmingly unstable and geo-strategically critical. Thus right from the beginning the developing countries were segmented into the privileged - the 18 Associated African States and Madagascar and the Maghreb states (Morocco, Algeria and Tunisia) - and the non-associated rump. Since then the Associated States have expanded to nearly 70 ACPs, while in the Mediterranean area, agreements, including some degree of preferential trade, have also been signed with all the non-Community littoral states, except Syria, as well as Spain, Portugal and Greece, now all Community members.

With the entry of Britain to the Community in 1973, the privileged 18 became the privileged 46. In the accession negotiations it was agreed that the Commonwealth countries would not all be treated alike. Only the 20 ex-British colonies with economies "comparable" to the Associated African States were "associable". The countries of South and South-East Asia, who overnight lost their tariff preferences on the British market, had to be content with a declaration of intention annexed to the Treaty of Accession, stating that the Community wished "to extend and strengthen the trade relations with the developing independent Commonwealth countries in Asia" and "to examine with these countries such problems as may arise in the field of trade".

It is not surprising that these developing countries should have invested great hopes in the Community's GSP which was inaugurated in 1971. This study looks at the GSP from the points of view of the beneficiary countries, the Community itself and, also, the countries outside the scheme. It both examines the functioning of the scheme today and how that has evolved over the 14 years of its existence. It goes on to make a quantitative assessment of the economic costs and benefits of the scheme to the various parties, both at a macro-economic level, and also through the examination of how the scheme has affected trade in a number of specific products.

In this study specific attention is accorded the ASEAN countries. The ASEAN countries of Thailand, Indonesia, Malaysia, Singapore and the Philippines - we exclude the new member, Brunei, since it was not a member during the period under study - include countries of quite different levels of deve-



## Introduction

lopment, natural resource endowments, sizes and degrees of government intervention in the economy. They have in common a successful record of economic growth in recent years. Moreover, as will become clear in this report, they have been particularly adept at exploiting the benefits of the EEC GSP.

Despite (or perhaps because of) ex-colonial ties, ASEAN-EEC relations were slow to get under way. The Community development policies and energies were absorbed in negotiating successive Yaounde and Lomé Conventions with the ACPs, and there was little effort made to develop formal links with other parts of the world. The lack of a strong centralized institution in ASEAN did not help.

In 1972 the Special Co-ordinating Committee of ASEAN Nations was established. About this time worries over the dominance of specific ASEAN countries in the production of certain commodities - rubber, palm oil, abaca fibres, hardwood, tin - were being expressed in Community trade discussions. The first ASEAN-EEC meeting at ministerial level took place in 1978, and a Cooperation Agreement between the two blocs was signed in 1980. This envisaged commercial cooperation, including the removal of trade barriers, and development cooperation in the form of EEC aid for selected ASEAN projects.

Nevertheless, ASEAN-EEC relations continue to be characterized by friction, much of which is generated by a sense of unfair treatment by the Community, particularly as regards trade, among the ASEAN countries. Indeed ASEAN, in recognition of its success in gaining EEC markets, has been rewarded with Community import restrictions on a wide range of products from Thai manioc to Singaporean calculators.

However, ASEAN negotiators have not always come out of ASEAN-EEC discussions empty-handed. For example, on their initiative, certain agricultural goods, including tobacco, have been added to the list of GSP-covered products, and the principle of ASEAN cumulative origin has been accepted, although it remains a contentious issue. On the other hand, the ASEAN countries were among those particularly hurt by the 1981 revamp of the GSP (see Stevens, forthcoming).

Table 1.1 is intended to put the trading relations between ASEAN and the EEC into a broad perspective. It shows that the importance of the EEC as a trading partner for the ASEAN countries has edged up gradually since the early 1970s. It is now of roughly equal importance to trade among the ASEAN