


**TRADE AND INDUSTRIAL
POLICY IN DEVELOPING
COUNTRIES**



DAVID GREENAWAY AND CHRIS MILNER

TRADE AND INDUSTRIAL POLICY IN DEVELOPING COUNTRIES

A Manual of Policy Analysis

David Greenaway

and

Chris Milner



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**TRADE AND INDUSTRIAL POLICY IN
DEVELOPING COUNTRIES**



Also by David Greenaway

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Preface

Trade policies and the formulation of trade strategy in developing countries has been a focus of attention for trade and development economists for several decades. The 1980s witnessed intensified interest in the relationship between trade policy and trade performance, and between trade performance and overall economic performance. There are a number of reasons for this. In academic and policy circles there has been a reevaluation of the relative merits of intervention-led and market-led development strategies. This has resulted from both a paradigm shift and the contrast between the experiences of some developing countries which adopted the most dirigiste and inward-oriented development strategies in the 1950s and 1960s and those of a number of NICs which apparently followed more outward-oriented policies. At the operational level there were no doubt some internal pressures on policy makers in developing countries as a result of dissatisfaction with what existing policies had delivered. But external influences have probably played a greater role. There has been a strong demonstration effect; the success of the export-oriented, newly industrialising countries, in particular of the Asian NICs, has received envious attention from politicians and the administrations in many less successful countries. There has also been a considerable amount of external pressure from multilateral agencies to undertake policy reform. The provision of significant amounts of financial resources, both short- and long-term, has become subject to policy conditions. In particular trade policy reform has invariably been a key component of the World Bank's structural adjustment programmes in developing countries.

Technical support in the form of funding for commissioned studies of current and possible future policies and their effects has frequently been a feature of structural adjustment lending (SAL). Indeed both of the present authors have been involved in the fieldwork for and production of reports on trade policy reform in countries involved with World Bank SAL negotiations – in Cote d'Ivoire, Madagascar, Tanzania, Burundi, Barbados and Trinidad for example. The governments of such countries seek independent advice on the costs and benefits of existing and other possible policies, and studies offer some opportunity for some 'technology transfer' about

the available tools for analysing trade and industrial policies. But one-off studies prepared during periods of negotiation with an external agency, such as the World Bank, are likely to be of restricted value in providing a permanent basis for the on-going evaluation of policy and the monitoring of the implementation and impact of reforms. Herein lies one of the primary aims of this book, namely to provide a manual that will be of value to policy makers and economists in developing countries when designing and monitoring trade and industrial policy reform. It seeks to explain how concepts and tools of analysis can be used to examine specific policy issues – for instance how the concept of effective protection might be used to comment on anti-export bias, or how computable general equilibrium models might be used to examine the impact of trade policy reform on the distribution of economic activity across sectors. It also aims to investigate the implementation of specific tools of analysis – to explain for example what information from official sources or surveys is required to measure the structure of incentives or protection, to identify the problems of measurement where data quality is likely to be constrained or to show how specific models can be tested for their sensitivity to particular assumptions or parameter values. By understanding the purpose and limitations of trade policy analysis, the aim is to provide the policy analyst with the tools for investigating the effects of both partial or piecemeal reform and general or wholesale reform. The latter issue of the optimal timing and sequencing of large-scale trade and related-policy reform is clearly complex, and something that will be a central focus of policy debate in developing countries for many years to come.

Of course these issues are of considerable interest to any ‘student’ of trade and development, as well as to policy makers in developing countries. The last decade has seen substantial growth in our knowledge of the nature and effects of trade policies in developing countries – the SAL programmes and the World Bank have been prime movers in raising the quality of applied trade and trade policy analysis in developing countries. Much of this work, however, is either difficult to access or is available only from diverse sources. It is hoped therefore that this book will also provide a useful source of summary information on this recent empirical work.

As explained above, a considerable amount of the background research for this book was conducted ‘at the coal face’, undertaking trade policy studies in a number of developing countries in Africa, the Indian Ocean and the Caribbean. Operational experience gained while acting as economic advisers to Maxwell Stamp plc (London), the World Bank, UNIDO and UNCTAD provided an excellent opportunity to gain experience in applying the principles of trade policy analysis. We are grateful for this experience. In addition both authors have, jointly and independently, worked on a number of analytical problems in the field of trade policy and development. As well as the analytical work and operational experience, the preparation of this book was enriched by a

period at the World Bank headquarters in Washington. That stay was financed by the Wincott Foundation and Maxwell Stamp plc. We are very grateful to both for making the visit possible.

The World Bank has been the leading force in the move to reduce trade policy distortions in developing countries. It has considerable operational experience and knowledge of local conditions in each of its country departments, and has attracted very able economists, including major trade economists from the academic community, to structure and develop its own research programmes. Our study visit to the World Bank during Easter 1988 provided us therefore with an invaluable opportunity to access its documentary resources, to gather case study material and to have discussions with World Bank officials who specialise in trade, and country specialists. In particular, we would like to thank the Research Administrative Department and the Economic Development Institute for the accommodation and facilities they provided; special thanks for their support and friendly interest in our work goes to Dennis de Tray and Richard Snape.

Finally our thanks also go to some other individuals. The typescript was expertly prepared by Su Spencer at Loughborough and Sue Berry and Sharon Tippier at Nottingham. Stephen Rutt at Macmillan displayed considerable support and patience during the project's long gestation. Finally, we would like to thank both of our families for their support and for the admirable way in which they coped while we were away gaining experience 'at the coal face' – not that fieldwork in some interesting 'southern' location is necessarily arduous!

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Contents

	<i>List of Tables</i>	xi
	<i>List of Figures</i>	xiv
	<i>List of Charts</i>	xv
	<i>Preface</i>	xvi
1	Introduction and Overview	1
	1.1 Background and Aims	1
	1.2 Outline of the Manual	2
PART I	TRADE AND DEVELOPMENT	
2	Instruments of Trade and Industrial Policy	7
	2.1 Introduction	7
	2.2 Economic effects of instruments of import substitution	8
	2.3 Economic effects of instruments of export promotion	28
	2.4 Instrument packages and policy strategies	37
	2.5 Concluding comments	40
3	Trade Policy and Development	42
	3.1 Introduction	42
	3.2 Evolution of thought on trade and development	43
	3.3 Trade as a source of impoverishment: structuralism	45
	3.4 Trade as a source of enrichment: neo-classicism	49
	3.5 Policy orientation and trade policy	55
	3.6 Concluding comments	59

PART II		TOOLS OF POLICY EVALUATION: PARTIAL ANALYSIS	
4	The Structure of Nominal Protection		63
	4.1 Introduction		63
	4.2 Measuring nominal tariffs		63
	4.3 Measuring non-tariff barriers		68
	4.4 The extent of tariff and non-tariff protection		71
	4.5 Concluding comments		77
5	Effective Protection Analysis		78
	5.1 Introduction		78
	5.2 The effective protection concept		79
	5.3 Extensions to the effective protection concept		81
	5.4 Measurement problems in effective protection analysis		84
	5.5 Empirical evidence on effective protection		91
	5.6 Policy appraisal issues		95
	5.7 Concluding comments		97
6	Domestic Resource Cost Analysis		98
	6.1 Introduction		98
	6.2 Domestic resource costs concepts		99
	6.3 Applications of the DRC methodology		102
	6.4 DRC analysis and policy appraisal		112
	6.5 Concluding comments		114
PART III		TOOLS OF GENERAL EQUILIBRIUM ANALYSIS	
7	Shift Analysis and the Incidence of Protection		117
	7.1 Introduction		117
	7.2 The theoretical framework		118
	7.3 True protection and the incidence of protection		122
	7.4 Empirical application of the model		126
	7.5 Uses and implications of the analysis		132
	7.6 Concluding comments		135
8	Computable General Equilibrium Modelling		136
	8.1 Introduction		136
	8.2 Origins and development of CGE modelling		137
	8.3 General equilibrium models: some basic principles		138
	8.4 Applying general equilibrium analysis		143

	8.5 A CGE model to analyse foreign trade restrictions illustrated	152
	8.6 Concluding comments	157
	Appendix 8.1: The equations of the TQR model	158
9	Applied CGE Analysis of Trade Policy	162
	9.1 Introduction	162
	9.2 Effective protection and resource pulls	163
	9.3 Costs of protection and rent seeking	166
	9.4 Trade regimes and market structure	168
	9.5 Trade taxation and government revenue	172
	9.6 Growth and trade strategy simulation	175
	9.7 Concluding comments	177
PART IV	EVALUATING COMPARATIVE ADVANTAGE	
10	Revealed Comparative Advantage	181
	10.1 Introduction	181
	10.2 Conceptual issues and problems	182
	10.3 Trade performance and 'revealed' comparative advantage	184
	10.4 A price-based measure of revealed comparative advantage	188
	10.5 Concluding comments	193
11	Potential Comparative Advantage	194
	11.1 Introduction	194
	11.2 Factor content and the stages approach	195
	11.3 Export similarity and comparative trade performance	198
	11.4 Policy reform and cost competitiveness	205
	11.5 Concluding comments	208
PART V	THE MODELLING AND REFORMULATION OF POLICY	
12	Structural Adjustment Lending: Rationale and Trade Policy Aspects	211
	12.1 Introduction	211
	12.2 Structural adjustment lending: origins and structure	212
	12.3 Trade policy reform in SALs	219
	12.4 The role of policy appraisal in SALs	222
	12.5 Concluding comments	225

13	Structural Adjustment Lending: Timing, Sequencing and Economic Effects	226
	13.1 Introduction	226
	13.2 Adjustment experience and economic performance	227
	13.3 Timing, sequencing and adjustment	235
	13.4 Factors influencing sustainability	239
	13.5 Policy appraisal, timing, sequencing and adjustment	241
	13.6 Concluding comments	241
	<i>Notes</i>	243
	<i>References</i>	246
	<i>Name Index</i>	255
	<i>Subject Index</i>	257

List of Tables

2.1	Instruments of import protection	8
2.2	Trade weighted average MFN and applied tariffs in selected developed and developing countries	10
2.3	Forms of distortions which result in market failure	12
2.4	(a) Characteristics of trade and exchange rate regimes, 1965–73	17
	(b) Characteristics of trade and exchange rate regimes, 1973–84	22
2.5	The hierarchy of policies	29
2.6	Types of export incentives used in various LDCs	30
2.7	Export incentives in Malaysia, the Philippines, Thailand and Korea	31
2.8	(a) Estimates of bias in five developing countries	39
	(b) Ratio of import to export effective exchange rates in nine developing countries	39
2.9	Definition of trade regimes: the Bradford–Branson continuum	41
4.1	Extract from the tariff schedule of the Ivory Coast	64
4.2	Nominal tariffs in Mauritius, 1980	65
4.3	‘Ex-ante’ and ‘ex-post’ nominal tariff rates for Burundi, 1984	67
4.4	Nominal tariff structure and changes for East Asian countries (per cent share)	72
4.5	Comparison of protection from tariffs and quantitative controls for selected products; Ivory Coast, 1971 and 1978	72
4.6	Comparison of protection from tariffs and quantitative controls for selected products, Mauritius, 1984	73
4.7	Comparison of protection from tariffs and quantitative controls for selected products, Zambia, 1981	74
4.8	Tariff and tariff equivalents for a sample of products, Burundi, 1984	74
4.9	Non-tariff barriers in East Asian countries	76
4.10	Trends in quantitative import restrictions in East Asian countries	77

xii *List of Tables*

5.1	Effective tariffs on manufactured products, Madagascar, 1983	89
5.2	Intersectoral pattern of effective tariffs, Madagascar, 1983	90
5.3	Distribution of effective tariffs, Madagascar, 1983	91
5.4	Evidence on effective protection in LDCs and NICs	92
6.1	Distribution of DRC ratios in Madagascar, 1983	105
6.2	Pattern of DRC ratios by industry in Madagascar, 1983	106
6.3	Relative importance of agricultural inputs in total production costs, Egypt 1980-7	108
6.4	Land tenure patterns in Egypt, 1972-82	110
6.5	Summary of next-best crop alternatives in Egypt	111
6.6	Egyptian agricultural crops, domestic resource costs (official exchange rates), 1980-7	112
6.7	Egyptian agricultural crops, domestic resource costs (shadow exchange rates), 1980-7	113
7.1	True protection for alternative substitution possibilities and trade strategies	126
7.2	Shift parameter estimates for some developing countries	130
7.3	Estimates of true tariffs and true subsidies for Ivory Coast	133
8.1	A two-sector open economy, general equilibrium model	143
8.2	Social accounting matrix for Turkey, 1978	149
8.3	Main features of the TQR model	155
8.4	Parameter specifications for the TQR model	155
8.5	Results of some policy simulations with TQR model	157
9.1	(a) Outline of the static and dynamic CGE model (Chenery et al., 1986)	165
	(b) Simulated growth and structural changes of trade liberalisation/export promotion (Chenery et al. model)	165
9.2	Welfare gains from trade liberalisation in Turkey	169
9.3	Welfare costs of import rationing for alternative market structures and returns to scale	170
9.4	'Optimal' revenue-constrained tariff rates	174
9.5	Trade strategies and macroeconomic performance	176
10.1	Some alternative trade performance indicators: Brazilian and South Korean steel industries, 1979-80	185
10.2	Share of manufactured exports with a strongly revealed comparative advantage in different types of developing countries	188
10.3	Industries with (implicit) revealed comparative advantage: UK and Trinidad and Tobago compared	192
11.1	Scaled exports of Cameroon and potential competitor countries, 1982	202
11.2	A comparison of revealed comparative advantage for Cameroon and similar economies, 1982	204

11.3	Estimates of domestic resource cost ratios by sector, Cameroon, 1986	207
12.1	Adjustment loans and lending commitments by the World Bank, 1980-9	214
12.2	Content of conditionality in World Bank lending	216
12.3	Content of lending operations of World Bank	217
12.4	Main components of trade policy reform in 40 AL countries	220
13.1	Degree of implementation of World Bank conditionality	228
13.2	Details of SAL studies	230
13.3	Effectiveness of adjustment lending: comparison of results	231
13.4	Effectiveness of adjustment lending: World Bank's assessment	232
13.5	Effectiveness of adjustment lending: further evidence	233

List of Figures

2.1	Economic effects of an import tariff: partial equilibrium, small open economy	12
2.2	Economic effects of an import tariff: general equilibrium, small open economy	13
2.3	Economic effects of an import tariff: partial equilibrium, large open economy	14
2.4	Economic effects of an import tariff: general equilibrium, large open economy	15
2.5	Economic effects of a QR: partial equilibrium, small open economy	27
2.6	Economic effects of an export subsidy: partial equilibrium, small open economy	36
3.1	Terms of trade effects in a small open economy	47
3.2	Supply shocks and export instability	48
3.3	Unit costs and minimum efficient scale of production	50
3.4	Static gains from trade	51
7.1	Relative prices and commercial policy interventions	119
7.2	True protection and the structure of protection	124
8.1	Two-sector general equilibrium with and without trade	142
9.1	Welfare cost of rationing and rent seeking	167
10.1	Policy-induced distortions of revealed trade	190
12.1	IBRD and IDA lending by lending instrument, fiscal year 1990	213
12.2	Structural adjustment loans and economic growth	215

List of Charts

3.1	The levers of economic policy	56
3.2	Alternative policy orientations	57
8.1	Calibration and simulation procedures with CGE models	148
13.1	Timing and sequencing of liberalisations	236