

GENERAL AGREEMENT ON TARIFFS AND TRADE

WORKING PARTY ON STRUCTURAL ADJUSTMENT AND TRADE POLICY

Meetings of 18 February and 9 March 1982

Note by the Secretariat

1. The Working Party met on 18 February 1982. It had before it (i) the secretariat note "Changes in the structure of production, employment and trade since 1963" (Spec(82)5), and (ii) information received from eleven members of the Working Party and one observer on their experience with regard to structural adjustment (Spec(82)6 and Add.1-2).
2. A further meeting was held on 9 March 1982 for which five additional members had tabled contributions (Spec(82)6, Add.3-7).
3. At the February meeting the Working Party noted that some participants had stressed that in order to ensure the usefulness of the exercise, substantially all members should fulfill their obligation to make written contributions. These participants had also indicated that they would be prepared to participate in an examination of their contribution only when notifications of other contracting parties were also available.
4. It was noted that the information contained in the secretariat study and some of the conclusions suggested by it would have to be looked at in conjunction with the presentations made by governments under paragraph II(b) of the work programme adopted by the Committee.
5. At the March meeting, the Chairman noted that contributions from contracting parties, although still incomplete, were in his view sufficiently representative for the work to go forward. The submissions contained information on the approaches and perceptions of governments in the area of structural adjustment, on the way in which governments conceived the developments which took place in the adjustment process and on the efforts undertaken by governments to assist the adjustment process. A first examination of the contributions showed that governments were conscious of the multitude of factors which affected structural adjustment. The impact of trade through increased import competition and increased export capacity was generally acknowledged and accounted to a large extent for the opinion that structural adjustment was and ought to be the result of the functioning of market forces. The role of public institutions was seen as one of attenuating the rigidities and socio-political costs of adjustment in cases where these were not acceptable to the parties concerned. When state interventions took the form of import measures, rather than subsidies, governments seemed to admit in principle that such measures should be of a temporary nature because adjustment was admittedly inevitable. He saw in this aspect of the problem one of the focal points of interest seen from the trade policy perspective of both importing and exporting countries. Although present economic conditions might not facilitate either trade

or adjustment, their interaction had been proved both in theory and in practice. The Chairman suggested that the Working Party continue the examination of the secretariat note and the contributions by contracting parties.

Assessment of the secretariat note : "Changes in the structure of production, employment and trade since 1963" (Spec(82)5)

6. At the February meeting the Deputy Director-General stated that the secretariat had attempted to collate relevant statistics on production and trade since 1963 with a view to obtaining a picture of the structural changes that had occurred over this period. The secretariat had also tried to provide an analysis of the factors that could have played a role in the changes of structures of production, employment and trade. The study did not attempt to establish a causal relationship between these changes and the factors relevant to these changes because the precise evidence needed to establish such causal links was not easy to obtain. Every delegation would have to draw its own conclusions from the study.

7. A summary of the points which the secretariat felt had emerged from the study was given to the Working Party (see Annex); these were points the secretariat drew from the study, not points which it had set out to make therein.

8. One member, referring to the agreed objectives and the nature of the work of the Working Party (Annex to L/5120) emphasized the need for the Working Party to identify the relationship between structural adjustment and trade policy measures in the context of the objectives of the GATT, including Part IV and in particular Article XXXVI. The focus of future work in GATT should be the link between the adjustment process and liberalization and expansion of trade. Insofar as the process of adjustment in developing countries was concerned it seemed to him a part of the overall process of the development of the economy as a whole, and as such in his view distinct from structural adjustment in industrialized countries where the focus was on resources being allocated in accordance with the competitiveness of the various sectors of the economy.

9. He suggested that in the context of the objectives of the GATT study, it was necessary to focus on a number of key elements. One such element was the interaction between structural adjustment and liberalization of trade, in particular to what extent had the adjustment process contributed to the expansion of trade. Another important element would be the identification of key sectors where the impact of structural adjustment had been felt or was likely to be felt in the near future. The sectors would be those in which there existed evident signs of rigidities; for instance, sectors where protective measures had been taken repeatedly and over a long time period and where there were identifiable pressures for the maintenance and intensification of such measures. Sectors where there had been a high growth rate of imports in developed countries might also deserve particular attention. Thirdly, it would also be useful to examine the flexibility shown by the economy as a whole and the positive measures taken by governments or industries

to adjust. Relevant questions in this connection were whether enough flexibility existed in these economies to identify and overcome the rigidities how the problems regarding mobility of labour had been tackled, and how far fiscal and monetary policies had been orientated to ease the rigidities.

10. A number of representatives from developing countries supported these suggestions both at the February and March meeting.

11. One member stated that one significant fact emerging from the study was that structural adjustment was a general and ongoing process. As such it was also a process closely inter-related to the process of economic development. Rigidity in the economic structures always had negative consequences for the economy as a whole but in particular for international trade. On the other hand, international trade had a considerable influence on structural changes. It could constitute either an incentive or an obstacle to structural changes. At present, because of protectionist tendencies, the latter seemed to be the case. International trade, given that it covered national production only in part, had a limited effect on the process of structural adjustment. Its influence on that process was assessed on the basis of the importance of international trade for the national economy. This aspect of the structural adjustment process had not been sufficiently emphasized in the study and might require a more detailed examination.

12. Another member also felt that the role of trade should be the focus of the activity of the Working Party, particularly the role of structural adjustment in the process of trade liberalization and trade expansion.

13. The importance of a "behavioural relationship between the forces for change" referred to in para. 144 of the study, was emphasized by one member who wondered whether there was not a tendency to underestimate the role of trade, in particular in the case of smaller countries. Another factor which might need more emphasis was the importance of the availability of foreign supplies, which in fact might be a prerequisite for the productivity differentials within an economy to play their full part.

14. Another delegation, while considering the secretariat study to be a substantial contribution to the ongoing work, thought that certain aspects of the adjustment process needed to be examined in more detail. There was a need to identify and examine factors that influenced future structures of production, employment and trade. Such factors were for instance the role of capital, of increased specialization, of transnationalization of production, the effect of subsidies for research and development in developed countries and the resulting advances of technology which could not be matched by developing countries. It should be possible to anticipate changes in structures that could affect future trade flows and identify those sectors where rigidities could develop in the future. In this connection it might be useful to give particular attention to sectors and branches which were particularly important in world trade, e.g. cars, electronics, textiles and agriculture. The examination in GATT should concentrate on the

identification of trade-related rigidities as that would throw light on some of the main short and long term problems in international trade.

15. At the March meeting one member stated that it agreed particularly with para. 184 of Spec(82)5 to the effect that "other measures, such as quantitative and other administrative controls which largely replace the automatic allocative mechanisms provided by the market, can isolate industries from certain forces making for change".

16. According to some members the GATT work should take due account of the work of other organizations in this area. They did not oppose the broad approach outlined in para. 9 above and felt it might be interesting to study specific instances of rapid import penetration in particular markets. The country contributions might prove useful for this purpose. They warned, however, against a sector approach because every sector was highly complex and specific at enterprise level. The work should be viewed as an initial phase of a process concentrating on GATT-related aspects of structural adjustment. In this connection, these delegations recalled that para. 187 of the study stressed the importance of internationally agreed and respected disciplines and that the effectiveness of safeguard rules might be of particular importance. They therefore suggested that it might be useful for the Working Party if the secretariat made an in-depth study of the relationship between structural adjustment and GATT provisions such as Articles XVI and XIX.

17. One member noted that the study clearly brought out the fact that the adjustment process - even in countries with market economies - was strongly influenced and at times controlled by government actions. For countries with small domestic markets, the relationship between trade, growth and economic development was of great importance. The study also clearly showed the effect of subsidies on the adjustment process and in distorting trade flows. He agreed with the view that in due course national contributions and the study should be linked with the analysis in L/5156 in order to better understand how structural adjustment could operate without leading to protectionism.

18. One member endorsed the distinction made in para. 104 of the document between three main sources of structural change, viz. changes in the domestic supply and demand, changes in the conditions of foreign supply and demand for tradeable goods, and government policies having an impact on these changes. In his opinion, it was important to establish the interrelationship between these categories.

19. Another member also felt that such a determination should be attempted without quantifying the contribution of the various relevant factors. He therefore supported the first and third points in the proposal outlined in para. 9 above. As to studies by sectors, however, he shared the hesitation of some other members. Turning to statistics, he noted with interest para. 17 of the study, showing that developing countries had similar experiences as industrialized countries in relation to a reduction of the agricultural sector in favour of manufacturing and services. He gave figures to indicate the great importance of foreign trade in the GNP of his country and the reasons why commercial factors were of crucial interest to his delegation.

Para. 132 of the study concerning the role of trade in smaller countries and paras. 186-188 concerning international trade relations, were particularly pertinent.

20. Other members also stressed the findings of para. 132, notably that the effect of trade on the economic structure of smaller countries "would be more pronounced than in the case of countries with an extensive and relatively self-sufficient domestic market". In the opinion of one of these members this aspect required further examination in the Working Party. In this connection he noted that factors such as instability in world prices might have implications for investments in the domestic economy of certain countries. While he shared the view that it might be too simplistic to label certain sectors as problematic, the Working Party should in his view pay full regard to the fact that certain sectors did face particular problems.

21. A number of members underlined the importance of the findings given in paras. 142 and 145 of the study, i.e. that increase in labour productivity and shifts in domestic demand had generally had a much more important effect than imports on employment. One of these members saw this view strengthened by the reference in para. 130 to the relative decline of many industries in developed countries many years before import penetration had become a problem. Another of these members noted that, while this statement might be true in certain cases, this thesis was probably not generally applicable to his country.

22. A number of delegations referred to the fact that structural adjustment was a very far-reaching concept, both in terms of economic theory and input/output relationship within as well as between countries. In the international context, international competition in traded goods was of great importance, but other elements were equally valid, such as availability and price of energy and raw materials, fiscal and labour market policies, and exchange and interest rates. It was important to give full weight to all these factors which affected structural adjustment when interpreting the information available, and also to take full cognizance of uncertainties prevailing in this area. They also suggested that the relationship between domestic production and trade should be dealt with on a country-by-country basis. These delegations shared the view that the Working Party ought eventually to focus on aspects of structural adjustment particularly relevant to trade.

Exchange of information on the experience of all contracting parties with regard to structural adjustment (Spec(82)6 and Adds. 1-7)

23. A number of participants suggested at the March meeting that the debate be deferred until information was also available from other members, especially from countries whose experience could contribute to a global analysis of the relationship between structural adjustment and trade. Supplementary information was also requested in relation to the member States of the European Communities since the adjustment process was also going on in the member States themselves. The EC representative replied that such information might be provided but that much would depend on the methodology and orientation the Working Party

would decide to follow. A number of members of the Working Party stated that they would submit their contributions in the near future.

24. One member noted that the country submissions bore out many of the conclusions contained in the secretariat study : (i) many significant shifts in economic structures had occurred, in some cases very large and relatively rapid ones, (ii) a close relationship existed between growth and structural adaptation, both in developing and industrialized countries, (iii) the degree and type of government intervention varied widely, from an almost laissez-faire attitude to detailed sectoral planning and intervention; (iv) although the predominant factors leading to structural adjustment were largely of domestic origin, most submissions saw trade flows both as creating pressures for and facilitating adaptation, with the effects of trade being stronger for smaller countries; and (v) investment flows played a significant role in structural change. This member stated that more information was needed in the area of trade in services. The proposals put forward in para. 9 above were - subject to some clarification - acceptable to his delegation, and although he agreed with the concern expressed about examining individual sectors, he thought that an identification of sectors would be useful in trying to identify areas where GATT actions might facilitate adjustment and encourage trade expansion. However, the examination should cover a balanced selection of sectors. Finally, he agreed that further work should be closely linked to the principles and provisions of GATT relating to trade barriers; a matter such as labour mobility would in his opinion fall outside the mandate of the Working Party.

25. One member stated that instances existed where the adjustment process was imposed upon exporting countries through trade policy actions taken in major markets, notably those of developed countries. Because conditions might change very quickly, adjustment had to take place continuously, very fast and sometimes with very little government involvement. This member was in favour of studying the material on a sectoral basis because in some sectors the problem of structural adjustment was much more important than in others.

26. One delegation suggested that the Working Party should try to arrive at a common perception of the concept of structural adjustment. He saw a particular need for (i) distinguishing between adjustments out of an unprofitable situation and adjustments into a more competitive one; (ii) synthesizing information on constraints to the adjustment process shared by individual countries; (iii) extracting information, in reviewing possibilities of adjustment, on the opportunities for job creation available in other areas of economic activity; (iv) identifying trends and common experiences as to the overall economic environment for the adjustment process over the past 20 years; and (v) seeking to understand the motives for government interventions, the instruments used and the results of such interventions, both in terms of their objectives and their trade effects. In such an exercise the unique character of the experience of each country with respect to structural adjustment should be taken into account.

27. One delegation supported this approach which might give a better understanding of the adjustment process as it had taken place in individual countries. The country submissions should in his view enable the Working Party to come to a determination as to whether the measures taken had facilitated trade or not, and also what problems, rigidities and pressures in individual sectors governments had faced.

28. Some other delegations, while not opposing these ideas, felt that it was premature to undertake such a study, in particular since more notifications ought to be submitted and little time had been available for an in-depth study of some of the notifications so far received.

29. The Chairman noted that document CG.18/W/41 dealt with the definition of structural adjustment, and recalled that the terms of reference of the Working Party called for an exchange of information and an overall analysis of experience. On the last point, the Working Party would have to decide whether the secretariat should be asked to undertake further work. In view of the contribution which the Working Party was expected to make to the work of the Preparatory Committee and the Ministerial Meeting, he suggested that the discussions be continued at the next meeting. The aim remained, however, to arrive at a more comprehensive approach as the work went on, guided by the question of how one might proceed in terms of trade policy proper to GATT. In this connection, he urged delegations which had not yet done so, to submit information in advance of the next meeting. He also suggested that delegations continued the process of informal consultations with the aim of clarifying the goals the Working Party should try to aim at in view of the Ministerial meeting.

30. The Working Party agreed with these suggestions. Its next meeting will be held on 27 April 1982.

ANNEX

GENERAL POINTS EMERGING FROM THE SECRETARIAT'S NOTE ON
"CHANGES IN THE STRUCTURE OF PRODUCTION,
EMPLOYMENT AND TRADE SINCE 1963"

1. It is clear that important changes have occurred in the structure of production, employment and trade since 1963. This is true both at a national level and at an international level. It should be emphasized that, at any feasible level of aggregation, the structural changes which may be observed can only provide an incomplete picture of the actual changes which have taken place. With respect to the major observed changes, in the opinion of the secretariat, the following are among those that deserve particular attention:

- (i) The pattern of production growth by broad categories was generally the same throughout the entire period under review for the service sector, which expanded considerably faster than the average, and for agriculture, which recorded the slowest expansion. The sectors most affected by cyclical fluctuations and the slowdown in economic activity after 1973 were mining and manufacturing in both developed and developing countries. The branch composition of manufacturing production between 1963 and 1973 was generally characterized by the faster growth of the engineering and chemicals industries relative to steel, textiles and clothing. After 1973, output of engineering products and chemicals continued to rise, but at a slower rate, whereas that of steel, textiles and clothing levelled off or declined, especially in developed market economies.
- (ii) Changes in the structure of employment by broad categories and by manufacturing branches have generally been more pronounced than those in production. In most developed countries the decline in industry's share in total employment and the decline of the level of employment in the textiles and clothing industries had started already in the second half of the 1960s.
- (iii) As regards the sectoral composition of merchandise trade, the share of manufactured goods in the value of both total exports

and imports generally increased between 1963 and 1973, mainly because of a more rapid growth in the volume of trade in manufactures than of trade in agricultural and mining products. Between 1973 and 1980 in the oil-importing countries the share of manufactures continued to rise on the export side, again due mainly to a faster rise in volume, but fuels became the most rapidly expanding category of imports, due to the sharp rise in prices. In the oil-exporting countries, the converse was true. The share of engineering products in total exports and imports of manufactures generally increased throughout the period under examination. By 1980, engineering products have become the largest category of manufactured exports also in the major exporters of manufactures among developing countries.

- (iv) For the agricultural products examined, changes in the international distribution were generally more pronounced for trade than for production. The share of Western Europe and North America in world exports tended to increase in the period under review, whereas their share in world imports declined for several products in which they had traditionally been the major markets. The more rapidly expanding markets for a number of agricultural commodities were Japan (especially in the period to 1973), the Soviet Union and many developing countries.
- (v) In 1963, world manufacturing production was largely concentrated in North America and Western Europe. Though their share declined throughout the period under review, they remained the major producing areas. The share of production contributed by Japan, the Soviet Union and Eastern Europe showed the most marked increases. The combined share in world manufacturing output of the developing countries in Latin America, Africa and Asia (excluding China) rose from 8 per cent in 1963 to 10 per cent in 1978 (in which year these countries accounted for nearly two-thirds of the world population).
- (vi) Throughout the period, the developed market economies accounted for a larger proportion of world trade than of world production. Their dominance in world exports was most pronounced in engineering products, chemicals and steel. Even for textiles, clothing and other finished consumer goods, however, though the share of developed market economies in world exports declined, they remained the largest exporting area. The combined share of developing countries in Latin America, Africa and Asia (excluding China) in world exports of manufactures amounted to 9 per cent in 1979 (twice as much as in 1963). Their share of world exports in 1979 was considerably higher for clothing (37 per cent), textiles (22 per cent) and other finished consumer goods (13 per cent) than for engineering products, chemicals and steel (5 per cent).

2. Structural change in a given country is the net result of changes in the conditions of purely domestic supply and demand, as well as of changes in the conditions of foreign supply and demand, transmitted through international trade and factor movements. These changes may in turn be induced by market forces or by government policies or, what is more likely, by some combination of the two.

3. The many factors potentially involved in observed structural changes are themselves interdependent: sometimes they are mutually reinforcing in their effects, in other cases they may act in opposite directions. It therefore becomes extremely difficult to determine what their individual contributions may have been in a given situation.

4. Nevertheless, available evidence suggests strongly that of the several possible causes of labour displacement from particular industries or sectors, trade flows have been less important than rising labour productivity and shifts in demand.

5. Government policies of intervention in the structure of an economy operate essentially at two levels:¹

- (i) the horizontal level - such as, general policies relating to manpower, R + D, incentives to save and invest, etc.;
- (ii) the sectoral level - policies with a more specifically sectoral emphasis.

6. Such policies influence structural change in a number of ways:

- (i) they can reduce or enhance the efficiency of the allocative mechanisms by which spontaneous adjustments are made;

¹In addition, macro-economic policies, which are basically concerned with the overall level of demand, employment and prices in the economy, leave the detailed allocation of resources to market mechanisms; however, their effectiveness depends on the responsiveness of economies at the micro level.

- (ii) they can influence directly the sectoral composition of output and trade by encouraging the retention of resources in, the movement of resources into, or the withdrawal of resources from, selected sectors.

(Of course, some policies may have both types of effect.)

7. Policies of sectoral support are never costless. They impose disadvantages on other sectors. In particular, assistance to import-competing activities penalizes export industries.

8. Frontier and internal measures of sectoral support (including some so-called 'adjustment assistance' measures) both have production and trade effects.

9. In view of the large number of government policies influencing economic structures and the complexity of their interaction, it is frequently difficult to determine their net effects. In any event, the secretariat has not found it possible to assess in general terms the extent to which observed structural change can be said to have been at an appropriate rate or even in the right direction. It could, of course, be argued that resort to protective measures (frontier or non-frontier) is in itself indicative of inadequate adjustment.