

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## REPORT OF THE WORKING PARTY ON STRUCTURAL ADJUSTMENT AND TRADE POLICY FOR THE PREPARATORY COMMITTEE

1. With a view to examining the rôle of GATT in the area of structural adjustment and trade policy the Council in November 1980 established a working party to elaborate specific proposals for future work on these problems. At the outset the Working Party focused its attention on the broad objectives towards which work on structural adjustment might be directed and on the modalities and institutional arrangements that might be appropriate in this connexion.
2. As regards the objectives of such work in GATT the Working Party came to the conclusion - which was subsequently adopted by the Council - that it should provide for a better understanding of the adjustment process and should aim at facilitating trade policy measures directed towards the expansion of international trade. It should also provide for an examination of the interaction between structural adjustment and the fulfilment of the objectives of the GATT in furthering the expansion and liberalization of trade, including in particular the trade of developing countries.
3. As to the nature of such work in GATT the Working Party concluded that there should be an analysis and discussion of the relevance of the Articles and instruments of the GATT to the process of structural adjustment; an analysis and discussion of the relationship between developments in trade and changes in production structures and in this connexion an identification of significant modifications in production and trading structures over time and factors relating to those modifications; and an exchange of information and discussion on the experience of all contracting parties with regard to structural adjustment, along with an overall analysis of the experiences.
4. As part of its work the Working Party has examined a note by the secretariat on the relevance of the Articles and instruments of GATT to the process of structural adjustment (L/5156). The note identifies the main provisions of the General Agreement and of other GATT instruments that have a bearing on structural adjustment in the following four groupings: (a) GATT provisions and instruments designed to achieve the lowering of barriers to trade, (b) provisions aimed at maintaining and consolidating the reduction of trade barriers, (c) provisions governing departures from the GATT rules maintaining and consolidating the reduction of trade barriers, and (d) provisions in the General Agreement or other GATT instruments which explicitly deal with structural adjustment.
5. On the basis of an exchange of views on the note the Working Party was generally of the view that GATT could best contribute to structural adjustment by continuing to play its important rôle in further liberalizing trade and in strengthening the open trading system. Many representatives

emphasized the contribution that the effective implementation of GATT provisions could make towards ensuring that the process of structural adjustment could take place in response to shifts in comparative advantage without being impeded by artificial trade barriers or unfair trading practices. It was also suggested that structural adjustment could itself have a beneficial impact on trade expansion.

6. The Working Party examined furthermore a study carried out by the secretariat (Spec(82)5) which examined the structural changes in production, employment and trade since 1963. The study also contained an analysis of the factors, including government policies, that might play a rôle in this process.

7. The secretariat drew attention to the following points which appeared to it to emerge from the study:

- 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, a combination of the two;
- The many factors potentially involved in structural changes are themselves interdependent and mutually reinforcing and thus it becomes extremely difficult to determine what their individual contributions may have been in a given situation;
- 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;
- Government policies of intervention in the structure of an economy influence structural change in a number of ways: they can reduce or enhance the efficiency of the allocative mechanisms by which spontaneous adjustments are made and 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;
- Policies of sectoral support are never costless; they impose disadvantages on other sectors; in particular, assistance to import-competing activities penalizes export industries;
- Frontier and internal measures of sectoral support (including some so-called 'adjustment assistance' measures) both have production and trade effects.

8. During the examination of the secretariat study in the Working Party it was stated that one significant fact emerging from the study was that structural adjustment was a general and ongoing process. Attention was also drawn to factors that influenced structures of production, employment and trade, such as the rôle of capital, of increased specialization, of

transnationalization of production, the cost and impact of new technology, and the effects of subsidies for research and development. It was noted that international competition in traded goods could be affected by a number of factors such as availability and price of energy and raw materials, fiscal and labour market policies, exchange and interest rates, and relative prices. At the same time government policies could also be directed towards affecting the use of resources as well as competition in particular sectors. In that context it was also suggested by one delegation that the concentration of corporate structures could have an influence on the adjustment process.

9. It was furthermore 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 concerned the interaction between structural adjustment and liberalization of trade, in particular to what extent the adjustment process had contributed to the expansion of trade and the role of trade in the process of adjustment. Another important element would be in the view of a number of delegations the identification of key sectors where the impact of structural adjustment had been felt or was likely to be felt in the near future. These would be mainly sectors where rigidities existed which had resulted in protective measures or where there had been a high growth rate of imports. It would also be useful to examine the degree of flexibility shown by the economy as a whole and the positive measures taken by governments and industries to adjust. Other questions concerned the contribution of the process of adjustment to the maximisation of comparative advantage and the appropriate burden of adjustment for small economies.

10. In addition to the two secretariat papers mentioned above, the Working Party also had before it information provided by a substantial number of governments outlining the approach that they have taken in their respective countries to the question of adjustment and the considerations underlying the adoption of specific policies in this area (Spec(82)6 and Addenda). The information provided showed a wide disparity as regards the experience with and approach to structural adjustment in individual countries which made it difficult to draw specific conclusions without further analysis and additional information. It would, however, appear to many delegations that the following general aspects merit being emphasized as a result of a first examination of the country submissions: (i) many significant shifts in economic structures have taken place in these countries, 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) although some statements recognized that the predominant factors leading to structural adjustment were largely of domestic origin, most submissions saw trade flows both as creating pressures for and influencing the process of adaptation, the effects of trade being stronger for smaller countries and for countries for whom trade accounted for a larger proportion of GDP; furthermore that adjustment pressures arising for these countries from trade policies followed by trading partners were particularly strong, and (iv) domestic and external investment flows played a significant role in structural change.

11. The country submissions furthermore revealed that while most countries relied to a large extent on market forces to bring about structural

changes, governments were playing an important, although in the view of a number of them mainly supplementary, rôle in this process. The reasons, purposes and means through which governments intervened in the adjustment process varied widely. Among those mentioned are the following: the need to facilitate and speed up the process of adjustment or to reduce its costs through measures aimed at reducing market imperfections and rigidities; providing support for efforts to promote increased productivity and innovation; rectifying regional imbalances; providing support for measures directed to assuring full employment; schemes for labour mobility and retraining; assisting the adaptation of particular sectors to import competition; adoption of trade measures influencing the pace of autonomous structural adjustment and reducing the economic costs for enterprises and workers.

12. With regard to the identification of factors influencing the process of structural adjustment and how the role of trade in the adjustment process could be further defined it was suggested by some delegations that efforts could be made to draw conclusions from the country submissions which could cover inter alia such questions as reasons for government intervention, techniques used, quantitative data including funds allocated to specific programmes, results obtained, and effects on trading partners. It was also suggested that the examination of trade related aspects of structural adjustment could cover the use of trade restraints in conjunction with structural adjustment. Some delegations recalled in this context the points made in the first part of paragraph 9 above about sectors where signs of rigidities existed. Some other delegations indicated that, while the trade relevant aspects should be taken into account in further work on structural adjustment, the adjustment process should be looked at in the context of the economy as a whole.

13. The Working Party agreed that before it submitted detailed conclusions on the subject it needed to carry out a further discussion and analysis in terms of its tasks relating to the relevance of the Articles and instruments of the GATT to the process of structural adjustment, to the relationship between developments in trade and changes in production structures, and the exchange of information and discussion and analysis bearing on the experience of all contracting parties with regard to structural adjustment. The Working Party hopes to be in a position to submit a comprehensive report on these matters on which specific conclusions can be based in time for consideration prior to the Ministerial Meeting.