

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## WORKING PARTY ON STRUCTURAL ADJUSTMENT AND TRADE POLICY

### Report to the Council

#### Introduction

1. At its meeting of 11 June 1981, the Council requested (C/M/148, item 16) the Working Party to carry out work on structural adjustment and trade policy, as set out in the Annex to document L/5120 (reproduced at Annex I of this report). In their Ministerial Declaration of 29 November 1982, the CONTRACTING PARTIES decided "to continue the work on structural adjustment and trade policy in order to focus on the interaction between structural adjustment and the fulfilment of the objectives of the General Agreement, and to review the results of this work at their 1983 Session."
2. The Working Party met on 2 July and 20 October 1981, and 18 February, 9 March, 29 April, 30 June, 19 July and 27 and 29 September 1982 and 14 January 1983 under the Chairmanship of Ambassador F. Blankart (Switzerland), and on 1 March, 21 March, 22 April, 27 May, 8 July, 22 September and 14, 17 and 18 October 1983 under the Chairmanship of Mr. B. Henrikson (Sweden).
3. In accordance with its mandate, the Working Party carried out the following tasks:
  - (a) an analysis and discussion of the relevance of the Articles and instruments of the GATT, including Part IV, to the process of structural adjustment, on the basis of a note by the secretariat (L/5156);
  - (b) an analysis and discussion of the relationship between developments in trade and changes in production structures aimed at facilitating a better understanding of the nature of the adjustment process, by helping to identify significant modifications in production and trading structures over time and the factors relevant to these modifications, on the basis of a secretariat note on changes in the structure of production, employment and trade since 1963 (Spec(82)5/Rev.1);
  - (c) consistent with the GATT and the results of the multilateral trade negotiations, 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 experience.

4. For the purpose of the exercise outlined in 3(c) above, the Working Party invited contracting parties to submit contributions on their individual experiences with regard to structural adjustment. Contributions were received from twenty-five contracting parties plus the European Communities and its member States. These contributions are reproduced in documents Spec(82)6 and Addenda 1-17. After a general discussion of this information, the Working Party examined these contributions on a country-by-country basis. During these country examinations, members of the Working Party obtained additional information and clarifications, and also made certain observations about the experiences of individual countries. Records of these country examinations are contained in documents Spec(83)29 and Addenda 1-27.

5. It is evident that, given the considerable amount of work undertaken by the Working Party over a period of almost two and a half years and the broad nature of the subject under consideration, this report cannot reflect in detail all the views expressed and the points made in the Working Party. It is therefore suggested that those interested in fuller information on the activities of the Working Party should consult the documentation listed at Annex II. It should also be noted that the Working Party's examination of government policies was undertaken from the perspective of their implications for trade and structural adjustment and did not entail a consideration of the consistency of specific measures with GATT obligations.

6. This report is organized under the following headings:

- I. General approaches of governments to the adjustment process and the contribution of GATT;
- II. Observed structural change since 1963;
- III. The factors that have brought about structural change, in particular the rôle of international trade;
- IV. The rôle of governments in the adjustment process and implications for international trade;
- V. Conclusions regarding the scope for co-operation in this area within the GATT framework aimed at the fulfilment of the objectives of the General Agreement.

I. GENERAL APPROACHES OF GOVERNMENTS TO THE ADJUSTMENT PROCESS AND THE CONTRIBUTION OF GATT

7. All members of the Working Party stressed the importance that their governments attached to continuous structural adjustment in their economies. They saw the movement of resources from lower to higher productivity uses as an essential feature of the growth and development process in their countries. The rôle of international trade in adjustment and growth was viewed in this light; while trade created additional adjustment pressures, it also generated important new and expanded opportunities for growth through expanding the scope for specialisation and economies of scale. In general, in assessing the adjustment process in their individual countries, members recognized both that adjustment was essential to the long-term growth and development of their economies, and

that it was not a costless process but one that could impose considerable hardships on those directly affected, especially as a result of the displacement of labour.

8. Most members were of the view that the adjustment process in their economies had shown a tendency to accelerate and to become more difficult in recent years. This was partly because the pressures to adjust had been particularly strong - for example as a result of the increases in energy costs, rapid technological changes, the emergence of important new industrial competitors and large exchange rate movements - but also because adjustment had been made more socially painful by the unfavourable general economic environment characterised by low growth, strong inflationary pressures combined with high unemployment, large government financial deficits, protectionist pressures and general uncertainty. In particular, investment, which was seen as the main vehicle of adjustment, had been depressed in many economies. Some of these delegations were of the view that these macro-economic phenomena were in part at least a consequence of reduced economic flexibility; they stressed the importance of policies aimed at increased flexibility for the resumption of non-inflationary growth in their economies.

9. Some members considered that there was an important difference between the adjustment process in developing countries, where in their view the emphasis generally lay on the simultaneous development of all sectors, and that in developed countries where adjustment more frequently involved the movement of resources out of certain sectors and into others. Some other members of the Working Party did not believe that there was a distinction of this sort to be made and expressed the view that growth in developing countries frequently entailed more fundamental shifts of resources, for example labour out of agriculture, than that in more mature economies.

10. In presenting their views on the general contribution of GATT to the adjustment process, many members noted that the enormous increase in world trade and international specialization that had been associated with this over the last thirty-five years had been made possible by the almost continuous liberalization of trade that governments had negotiated during this period. In their view, the GATT, in its twin rôles as a forum for the negotiation of trade liberalization and for administering a set of trade rules, had been giving rise to pressures for further beneficial structural change and, at the same time, acting as a brake on the use of trade restrictive measures that would impede adjustment. Moreover, the GATT also had as an important purpose the reduction of the unpredictability and uncertainty associated with international trade, and thus acted to contribute towards the creation of a favourable environment for the investment required if countries were to benefit from the opportunities opened up. All this had been reflected in the very large increases in the importance of international trade in most economies. By the same token, it had made economies more vulnerable to developments in international trade, and therefore increased the importance of an effectively functioning international trading system. It was against the background of this general appreciation of the rôle of GATT in regard to the adjustment process that the Working Party undertook its work.

11. Although not wishing to deny the important rôle that the GATT had played along the above lines during the post-war period as a whole, some members of the Working Party believed that the GATT system was presently not working as effectively as it should to stimulate positive adjustment in contracting parties and to ensure an equitable international distribution of adjustment burdens. This was partly because in their view certain GATT provisions were increasingly not being fully implemented and partly because of the limitations of the GATT rules and procedures themselves in certain areas, particularly in regard to domestic measures affecting international trade, export subsidies, and the growing use of "grey area" measures to control imports. Reference was made notably to rules on subsidies, safeguards and anti-dumping and countervailing duties. Representatives of developing countries also recalled that certain GATT provisions, notably Article XXXVII:3(b) and the Multifibre Arrangement, required developed countries to stimulate adjustment in their economies so as to provide increased access for imports from developing countries. They were of the view that these provisions had not been, and were not being implemented in the way and to the extent required. Some delegations also pointed out that relatively little progress had been made in trade liberalization in some sectors, notably agriculture and textiles.

## II. OBSERVED STRUCTURAL CHANGE SINCE 1963

12. The Working Party had before it a secretariat study entitled "Changes in the Structure of Production, Employment and Trade since 1963" (Spec(82)5/Rev.1), which examined changes in the sectoral and geographic patterns of production, employment and trade over the last twenty years, as well as factors relevant to those changes. A summary produced by the secretariat of certain of the major observed structural changes since 1963 as indicated by this study is at Annex III of this report.

13. The presentations of governments showed that, although there was much variation from country to country in the patterns of structural change observed in their respective economies over the last twenty years, there were also a number of widespread tendencies. Most members emphasised that very considerable structural change had taken place and was continuing to take place in their economies. Without attempting to be exhaustive, certain of the features highlighted by governments are summarised in the following paragraphs.

14. In regard to the broad inter-sectoral composition of production and employment, many members referred to the fall in the share of agriculture in production and employment in their countries, and in particular the outflow of labour from the agricultural sector (although some developed countries noted that the rate of outflow had slackened in recent years, especially since 1973). Many developed countries noted the fall in the importance of their manufacturing sector in employment and, in some cases, in production, a development which a number of these governments considered a matter for concern. Most developing countries pointed to the continuing tendency for the share of the manufacturing sector in both production and employment to rise in their countries. Many developed countries stressed the growing importance of the services sector in their economies, especially as a source of new employment opportunities. Most developing countries also noted that the share of services in production and

employment had risen substantially in their countries. In regard to minerals, experience varied; some members said this sector had become relatively less important as a result of the diversification of their economies, but certain other countries stressed its increased importance in production, even though its contribution to employment had generally remained small.

15. As for structural changes related to trade, the most striking feature noted by most governments was the increased importance of international trade in their economies as measured by imports and exports as proportions of GNP. In regard to the composition of trade, most countries pointed to manufactures and fuels as the fastest growing sectors in the value of their imports and/or exports. While a few countries pointed to an increase in the share of agricultural exports in their total exports, most members noted that this share had fallen in their countries. A similar pattern was observed for non-fuel minerals.

16. Most developed countries referred to the tendency in their economies for the share of certain labour-intensive or standard technology industries (textiles, clothing, footwear etc.) in manufacturing production and, more markedly, in manufacturing employment, to fall. Many of these countries also referred to the tendency for the shares of certain traditional heavy industries (steel and shipbuilding and also, in some countries, automobiles and petrochemicals) to fall especially since 1973. Some of these countries emphasized the increasing importance of industries dependent on more advanced and rapidly-changing technologies (micro-electronics, aeronautics, pharmaceuticals, precision instruments, etc.) Developing countries generally stressed the importance of an expansion, diversification and increase in sophistication of their manufacturing sectors, which was being attempted from a relatively small base in many cases. A development that many developed and developing countries drew attention to was the greatly increased two-way trade in manufactures between developed and developing countries.

17. While there was widespread agreement that considerable structural change had taken place, some members stressed that it could not be concluded from this fact that the changes had necessarily been adequate to respond to the underlying forces or had even been in the right direction. As indicated later in this report, certain members were of the view that this had not always been the case.

### III. THE FACTORS THAT HAVE BROUGHT ABOUT STRUCTURAL CHANGE, IN PARTICULAR THE ROLE OF INTERNATIONAL TRADE

18. The secretariat in its study (Spec(82)5/Rev.1) referred to three categories of factors that brought about structural change in a country:

- (i) changes in the conditions of purely domestic supply and demand stemming from certain underlying developments in the domestic economy (technological change; demographic developments; changes in demand associated with changes in tastes, income levels and distribution; changes in resource endowments, etc);

- (ii) government policies; and
- (iii) international trade and factor movements which are in turn influenced by the operation of the underlying factors and by government policies both in the country in question and in its trading partners.

19. While members of the Working Party acknowledged the importance of these various factors, the emphasis they placed on each one varied according to their national policies and experiences. For example, while all countries stressed the importance of international trade in giving rise to adjustment pressures, it was noted that this importance varied according to the proportion of GNP accounted for by international trade. Representatives of countries with small open economies, where imports or exports might be equivalent to more than 40 per cent of GNP, generally saw international trade as of predominant importance. In large economies with a lower proportion of trade in GNP, other factors such as technological change and changing per capita income levels were often considered relatively more important, though the influence of trade might still be extremely strong in certain sectors. These countries stressed inter alia differing productivity growth rates between sectors, new modes of production within sectors that affect the intensity of resource utilization, differing income elasticity of demand for the output of different industries, changes in consumer tastes and changes in the age and sex composition of the labour force and of the population as a whole. Reference was also made to the factors mentioned in paragraph 8 above. It was noted however that, since the share of trade in GNP had shown a strong tendency to rise in most countries, the importance of trade as a factor influencing structural change had shown a corresponding tendency to increase.

20. Particular trade-related developments noted by various members as contributing to structural change in their economies included: the sudden increases in energy prices, which had led to important adjustments in both energy importing and energy exporting countries; the decline in the terms of trade experienced in recent years by some countries, especially those dependent on exports of non-fuel primary products; the emergence of important new developed and developing country suppliers in a number of areas of international trade; the development of new natural resources, particularly where this was important in reducing imports or increasing exports; and certain trade policy developments such as increasing regional integration and the liberalization of tariffs and non-tariff measures in the context of GATT sponsored negotiations.

21. Reference was also made to the rôle of international factor movements in structural adjustment. Some delegations stressed the importance of international flows of technology and capital, especially direct investment, for domestic production structures and the international division of labour. Some delegations mentioned the adjustment required in their trade and economies in response to their growing burdens of indebtedness and debt servicing. Reference was also made by some delegations to the adjustment inhibiting and distorting effects of high interest rates and exchange rate instability. A further factor considered important in influencing structural adjustment in some countries was labour migration, both outward and inward.

22. Many members noted that the way that international trade and factor movements influenced structural change in their economies depended importantly on their own policies in these respects and on those of their trading partners. They also acknowledged the importance of certain domestic policies pursued by governments for the adjustment process in their countries. The views of members on these points are outlined in the following section of this report.

#### IV. THE ROLE OF GOVERNMENTS IN THE ADJUSTMENT PROCESS AND IMPLICATIONS FOR INTERNATIONAL TRADE

23. The reasons given by governments for policies bearing on structural adjustment in their countries generally concerned the promotion of efficiency and economic growth, minimising the transitional costs associated with adjustment, the reduction of inter-regional or inter-sectoral income disparities, and environmental and security considerations. Whereas many of the above objectives were shared by most governments, the presentations made to the Working Party reflected a considerable diversity in policy approaches to the attainment of these objectives and towards structural adjustment. While governments indicated that their policies did not necessarily conform in every respect with the models below, the broad differences in general approaches or philosophy as presented in the Working Party can be summarised as follows:

- (i) Some members said that their governments saw their rôle as being essentially limited to the maintenance of competition and the provision of a stable legal and institutional framework within which adjustment can take place autonomously through the decisions of individual economic agents responding to market forces as expressed through changing relative prices. The view was expressed that in the absence of State intervention market forces would guide resources to their most productive uses and adjustment would take place quickly and smoothly.
- (ii) A large number of members said that their governments shared in most circumstances the views outlined in (i) above, but saw a subsidiary rôle for government intervention in their economies in certain situations. In the view of some members, these situations involved particularly those sectors of the economy where rigidities were marked and pressures were repeatedly exercised on governments to take or intensify protective action. Other members indicated that their governments generally had more active policies aimed at facilitating adjustment in their economies as a whole in response to market forces - for example with respect to the labour market, investment and research and development. They also had policies aimed at influencing the pace or direction of adjustment in certain sectors. Such policies were followed either with a view to reducing the social costs of adjustment or because the market in certain situations was considered unlikely to operate in a way consistent with long-term welfare or growth objectives - for example, where it was felt that investments were too large or risky for the market to finance them unaided, or where an industry that would be viable in the long term needed help to get established or to overcome short-term difficulties.

- (iii) In another group of countries, including many developing and some developed countries, government direction was seen as essential for ensuring that scarce resources were steered towards priority uses that would maximize economic growth consistently with social justice, although in many of these countries market forces either operating directly or through the mediation of government policy were also seen as important. In some cases, these governments relied principally on modifying market forces so as to achieve desired economic structures, while in other cases emphasis was placed on administrative direction.
- (iv) It was noted that even in some countries where adjustment was seen as a predominantly autonomous process there existed specific sectors where a high level of intervention and planning took place. Some countries said that economic change was achieved in their economies through planning processes of an indicative nature, relying on the autonomous decisions of enterprises. Some members indicated that structural change had largely taken place in response to centralized planning decisions, particularly as they affected investment. Some members indicated that steps had been taken to reform the economic management system in their countries by decentralizing decision-making and increasing the rôle of prices, and by aligning domestic prices more closely with international prices.

#### General trade and other policies

24. Many members stressed the rôle of general policies that were not aimed at particular product sectors in improving the operation of markets, increasing the speed and ease with which resources could move between sectors, and stimulating investment and innovation. They saw these policies as making the economy more responsive to pressures for change, including from import competition. Among types of measures commonly referred to were the provision of infrastructure, labour market policies (for example, training programmes and measures to increase labour mobility), aids to investment and research and development, tax adjustments to increase incentives, assistance to small- and medium- sized firms which were seen in many countries as a particularly adaptable and dynamic segment of the economy, competition policy, and policies aimed at minimizing the regulation of business activities including the removal of controls on prices and interest rates.

25. Many members also emphasized the rôle of their overall trade policy in stimulating favourable structural adjustment in their countries. They referred to the progressive reduction of their import tariffs, their participation in regional preferential arrangements, the introduction of the GSP, the liberalization of non-tariff barriers and the absence of foreign exchange controls in their economies. They said that the liberalization of their trade régimes on a reciprocal and contractual basis had increased the responsiveness of their economies to developments elsewhere in the world: industries competing with imports had been forced to adapt to increased competition; the competitiveness of export industries had been enhanced and new opportunities opened up for them. The progressive way in which trade barriers had been reduced had enabled the necessary



adjustment to take place without excessive disruption. All this had been reflected in the increased importance of trade in their economies. These countries, especially the smaller ones amongst them, emphasized that they saw the maintenance of open trade régimes in, and continued adjustment to international market developments of, their own and other economies as vital to the prosperity of their countries. Some of these countries indicated that this general policy stance included measures aimed at correcting market distortions resulting from unfair trade practices. It also did not preclude the use of trade measures to cushion the effects of excessively disruptive developments on world markets. Some delegations said that the benefits accruing from open trade policies were in the large part dependant on the trade policies of trading partners, and in this context referred to the points reflected in paragraphs 34 and 35 below.

26. Some other members of the Working Party also expressed belief in the merits of trade liberalisation for the efficient allocation of resources in their economies. Many of these members referred to the unilateral liberalization measures that their governments had pursued, often as part of wider policies, sometimes including exchange rate adjustments, aimed at allowing greater play to market forces in their economies. Several members indicated that the excessive pursuit of import substitution had been found to be wasteful of resources and to impose handicaps on efficient sectors, especially in their export activities; this had led them to adopt more export-oriented trade and development policies. Some members referred to the increased recognition in the planning process in their countries of the importance of adjustment to international market developments for efficiency and growth; two important reflections of this in some of these countries were the increased influence of world market prices on domestic price formation and the greater autonomy being given to enterprises to engage in international trade.

27. Some members said the primary factor behind the formulation of trade policies in their countries was their shortage of foreign exchange. This had limited the extent to which their countries had felt able to adopt liberalization policies, or in certain cases in recent years, especially where rapidly growing debt service obligations were involved, had frustrated efforts to carry forward these policies. Countries maintaining balance-of-payments restrictions indicated that their governments were obliged to determine priorities for the allocation of available resources and imports. In this connexion some members of the Working Party said that particular attention was paid in their countries to the promotion of exports and export industries. These measures were often seen as offsetting the competitive disadvantages imposed on export industries by other features of their economies and economic policies, including in respect of imports.

28. Some members said that their governments accepted a responsibility for compensating and assisting those adversely affected by the adjustment process. In their view, since society as a whole benefited from adjustment, most of the costs of adjustment should be borne by society as a whole rather than concentrated on those directly affected. A range of general government policies were used for this purpose, notably income support through social security arrangements. Some governments also described the special schemes they employed to assist workers, companies and, sometimes,

communities particularly affected by adjustment required in response to increased imports, especially when such increased imports resulted from trade liberalization. It was hoped that those schemes would increase support for trade liberalization in the community at large. Some governments were of the opinion that the essential functioning of the market system and of the international market should be taken into account when welfare, environmental and other social policies were being implemented.

#### Sector-specific policies

29. While some members indicated that their governments had no selective policies applying to specific industries, most members of the Working Party said that their governments operated policies that affected structural adjustment in certain particular sectors, especially agriculture, energy and certain manufacturing industries.

30. In their agricultural policies, some governments said that, in addition to promoting efficiency, they attached particular importance to one or more of the following objectives: securing a standard of living for their agricultural population comparable with that of the population in other sectors; security of supply; maintenance of a sizeable population in certain regions; and protection of the environment. In their view, these objectives would not be satisfied as a result of the normal workings of market forces and therefore made necessary a substantial level of government intervention on a long-term basis. These governments generally believed that the agricultural sector was both subject to particularly strong adjustment pressures (notably because of rapidly increasing productivity and low income elasticity of demand) and, at the same time, was a sector in which adjustment was particularly difficult and painful. Some other governments indicated that the prime concern of government policy regarding agriculture in their countries was to maximize the efficient allocation and use of resources by ensuring that adjustment took place in line with long-term market forces. A factor which appeared to condition agricultural policies in virtually all countries was the tendency towards instability in agricultural markets; this was seen as in large part due to the unpredictability of agricultural production in some regions, the perishable nature of much agricultural produce and the tendency for farmers to overreact to market signals. Some members of the Working Party also emphasized the rôle of the agricultural policies of other countries as a cause of international market instability. They felt that the pursuit of an undue degree of security of supply created costs for both countries pursuing that objective and for trading partners. A factor noted by some members as underlying agricultural policies in their countries was the need they saw to protect their producers from distortions in the world market resulting from the policies of other governments. Some other members noted that, in terms of GATT, direct government intervention should be limited to cases where substantial market damage would otherwise occur.

31. It was clear that the nature of policy instruments employed to attain these objectives varied, as did the extent and intensity of their use and their effects on economic structures and the adjustment process. Frequently, they involved the use of import measures and domestic

measures in conjunction with each other to stabilize and, in many cases, support the price received by the producer. A feature noted by some countries that operated agricultural support policies was the tendency for production to increase rapidly and for surplus stocks to be accumulated. One way in which some governments responded to this situation was through policies designed to restrain production in sectors where a surplus was evident. Another way referred to was to export on the world market, often with the aid of payments to make up, in whole or in part, the difference between the domestic support price and the world market price. Members of the Working Party also provided details of structural policies in the agricultural sector working at the level of individual farms, aimed at increasing efficiency and speeding up and making less painful the process of adjustment in the farm sector. In addition, members referred to broader government policies to assist agriculture, including in the areas of research, irrigation, flood control, land reclamation and other infrastructural development.

32. Some members of the Working Party indicated that their governments had specific policies directed towards a number of manufacturing industries in difficulty. These tended to be industries where problems of low domestic demand and surplus capacity were seen to be aggravated by strong competition from foreign suppliers in domestic and/or export markets. Many of these governments said that the practices of other countries in aiding these industries created pressures on them to provide assistance to their own producers. Among the sectors often referred to in this connexion were textiles, clothing, footwear, shipbuilding, steel and automobiles. Other industries also mentioned by certain members included domestic electrical appliances and certain processing industries particularly affected by the increase in energy prices and cyclical down-turns in demand, such as petrochemicals, synthetic fibres, aluminium, other non-ferrous metals and forestry products.

33. In a few cases governments had policies to maintain permanently a minimum level of production, usually, it was stated, for security reasons; however, governments generally indicated that their measures of assistance to the industries referred to in the preceding paragraph were temporary and designed to enable the necessary adjustment to take place at a socially acceptable rate. In general, they said that policies in these sectors were designed to provide temporary support during a period in which the industry (or, in some cases, specific firms) in difficulty could carry out a restructuring plan that would restore it to economic or competitive viability. Such plans were seen as involving the closure of some outdated plant including provisions for compensation and assistance to the workforce and companies affected, and the modernization and/or reconversion of remaining capacity. Some countries said that they did not use direct trade measures for these purposes, but employed internal measures only. In other countries having selective policies, instruments varied from industry to industry, but frequently involved a combination of trade measures and domestic measures. These members stressed the amount of adjustment that had taken place and was continuing to take place in these industries, despite the present high levels of unemployment. Some of these members said that the restructuring conditions attached to government aid had been made increasingly severe in recent years.

34. Some countries said that certain of these agricultural and industrial policies followed by some of their trading partners were distorting international trade and the international division of labour. These countries maintained that in some sectors, particularly agriculture, textiles, clothing, footwear, and steel, their export trade was being curtailed by the use of import restrictions and domestic support measures in major trading partners and in certain cases through the subsidisation of exports. In their view, policies affecting structural adjustment in these sectors were too often tending on balance to slow down or block adjustment by maintaining or even stimulating production. They saw the tendency for continued high levels of investment in some of these sectors in these countries as evidence that adjustment was not taking place in the right direction. They doubted that the policies employed were always cost-effective ways of achieving the objectives sought.

35. These members believed that these policies were preventing their countries from taking advantage of their comparative advantage in certain areas. They said that this in turn impeded adjustment in a favourable direction in their own economies and even, where their exports were being actually curtailed, forced adjustment in their economies out of areas where they were relatively more efficient. These countries also maintained that support policies, or the threat of them, in their trading partners were generating increased uncertainty and instability in international markets, and thereby leading to a more unfavourable environment for their industries to adjust in. Some of these countries said that the curtailment of their export earnings as a result of these policies, many of which have a protectionist character, in trading partners was contributing importantly to their trade deficits and hence to their balance-of-payments problems and indebtedness. In these circumstances, they had in some cases been obliged to tighten up import restrictions, sometimes reversing liberalization policies that they had been pursuing. They considered that this not only adversely affected the speed and direction of adjustment in their own economies but also in those of their trading partners whose efficient exporting industries suffered a consequential reduction of demand. Some of these countries also referred to what they regarded as additional distortions in the international division of labour arising from the application of trade measures on a discriminatory basis, where this led to trade being diverted from more efficient to less efficient suppliers.

36. Those members of the Working Party who expressed the views outlined in paragraphs 34 and 35 above generally considered that adjustment burdens and costs were frequently being inequitably distributed among nations. In their view, there was a tendency for major trading nations to shift the burdens of adjustment onto their trading partners, through the use of import restrictions, other support measures and export subsidies - and that this tendency was evident not only where the adjustment in those nations was required in response to developments in international trade but even where the adjustment was required mainly in response to internal pressures.

37. At the same time, it was observed by some other members that internal market prices could play a more central rôle in determining the allocation of resources within certain of those countries advocating an increased degree of international structural adjustment, as in some others. They were also of the view that trade restrictions in these countries distorted their internal price systems and gave wrong signals for the use of resources.

38. Another aspect of industry-specific policies affecting structural adjustment that the Working Party considered related to government policies in respect of the promotion of promising industries. Some members saw that this process as best left to the market working within a framework of favourable general government policies that provided adequate incentives to work, save, innovate and invest. Another approach was to emphasize consultative mechanisms between government, industry and other interested parties that would facilitate the creation of a common appreciation of the likely and desirable future pattern of structural change. Other members considered that their governments could importantly promote structural change and economic growth by identifying industries with high growth potential and focusing measures of assistance on those industries (or in some countries on specific firms in them). Among the sectors mentioned in this connexion were micro-electronics, telecommunications, robotics, aerospace, biotechnology, and pharmaceuticals. These industries were generally seen as being characterized by the high-technology and R & D intensive nature of their operations, and policy towards them was frequently indicated as being part of a broader policy in the economy as a whole aimed at the stimulation of R & D and the use of advanced techniques in industry in general. Governments assisting certain high-technology industries generally indicated that such measures were necessary to stimulate economic growth and the creation of new employment opportunities in their countries, and to enable such industries to keep up with international competition. It was indicated that in most cases assistance was made available through domestic, and not trade policy, measures.

39. Some members of the Working Party were particularly interested in the procedures and requirements governing the introduction and use of sectoral intervention measures. Some members emphasized the transparency and openness of their procedures. Another point highlighted by some members was the importance their governments attached to support measures being introduced for a limited period of time announced in advance, and being degressive in nature. Similarly, some governments stressed the importance of support measures being linked to specific adjustment obligations and the need for such adjustment to be closely monitored. Reference was made by some members to the desirability of intervention measures conforming to the OECD guidelines on Positive Adjustment Policies.

#### V. CONCLUSIONS

40. The Working Party considered that the exercise it had undertaken had led to a better understanding of the adjustment process in general and the role played by government policies in influencing the interaction between structural adjustment and international trade. In particular, it had enabled contracting parties to gain a better appreciation of the ways other governments viewed the adjustment process and its relation to trade policy in their respective countries.

41. The Working Party recognized the importance of, and need for, continuous structural adjustment in economies for their long-term growth and development. It saw adjustment in response to changes in the international trading environment as an important element in this more general process.

42. The Working Party noted that many factors, both national and international, including the macro-economic environment, gave rise to adjustment pressures and that it was sometimes difficult to assess their relative importance. International trade was, however, seen as an influence in every country, though its impact varied between countries and sectors. It is one of the key mechanisms through which pressures on economic structures in one country and policies to deal with such pressures come to affect other countries and to influence economic structures in them.

43. The Working Party noted that in certain sectors rigidities that hindered adjustment to structural change could give rise to pressures for protective measures and adversely affect international trade; at the same time domestic measures affecting structural adjustment could have important trade effects. In this connection, the agricultural sector and a number of industrial sectors, including some of special interest to developing countries, were referred to. The Working Party noted that many governments employed measures to influence the pace of structural change in specific sectors, and that these measures sometimes have adverse trade effects - and thus repercussions for trading partners as noted in paragraph 42. The Working Party stressed the importance of flexibility in economies, and government policies which facilitate such flexibility, for the smooth and rapid accommodation of adjustment pressures arising from imports as well as from other sources. Such flexibility reduces the risk of the accumulation of adjustment pressures that can lead to demands for protection; inflexibility increases this risk.

44. The Working Party believed that the GATT provides a framework for dealing with trade difficulties arising from the trade effects of measures bearing on adjustment as these relate to GATT rights and obligations, but noted the widespread view that its effectiveness in doing so was diminished because certain GATT provisions were not being fully implemented and because of the limitations of GATT rules and procedures in certain areas. The Working Party was of the view that, if effects on the rights and obligations of contracting parties under the GATT and on the fulfilment of the objectives of the General Agreement were taken into account when consideration was being given to measures influencing structural adjustment, it would help to avoid trade difficulties. In this regard, particular attention should be paid to avoiding trade difficulties for developing countries.

45. The Working Party believed that by promoting the liberalization of trade through the conduct of successive rounds of trade negotiations, the GATT had facilitated structural adjustment, though the degree to which this had happened had varied from sector to sector. Thus, while considerable liberalization had taken place in some industrial areas, less had taken place in other sectors including agriculture. The Working Party also believed that the GATT contributes to adjustment to the extent that it has succeeded in promoting a stable and predictable trading system and discouraging the use of trade measures that can impede adjustment.

46. The Working Party considered that the main contribution that the CONTRACTING PARTIES could make to the adjustment process would be to abide by their obligations under the GATT, to ensure strict adherence to

GATT rules and to support and improve the GATT trading system, so as to further the fulfilment of the objectives of the GATT, including those in Part IV. By so doing, the GATT would also contribute towards the creation of an improved macro-economic environment for the adjustment process. Stress was placed on GATT's work in regard to further trade liberalization, especially in areas such as agriculture, and on the full implementation of the Ministerial Declaration of 29 November 1982, including the work on a comprehensive understanding in the safeguards area. Stress was also placed on the need to avoid trade difficulties for developing countries.

47. The Working Party believed that the exchange of information and examination of national experiences in regard to structural adjustment had been particularly valuable in providing insights into the nature of the adjustment process and the factors affecting it. The Council should ask relevant GATT bodies to take into account the insights gained and conclusions reached in the Working Party. The Working Party considered that the GATT should continue to focus attention on the question of structural adjustment and its relation to trade, in the light of the conclusions in paragraphs 40-46 above. It recommends that the Council decide how the above might be undertaken.

## ANNEX I

Annex to document L/5120 concerning proposals for  
future work in GATT on structural adjustment and  
trade policy: adopted by Council on 11 June 1981

### I. Objectives of work in GATT

Work in GATT on structural adjustment 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 GATT in furthering the expansion and liberalization of trade, including in particular the trade of developing countries. The work should take place within the context of the provisions of the GATT, including those in Part IV, and should take into account the results of the multilateral trade negotiations.

### II. Nature of the work in GATT

In the context of the continuing efforts in GATT to avoid resort to trade-restrictive measures and to promote trade liberalization and having regard to the need for a thorough examination of this subject as well as for a fuller understanding of its nature and the rôle of the GATT, the Working Party agreed that there should be an analysis and discussion of the relevance of the Articles and instruments of the GATT, including Part IV, to the process of structural adjustment. Moreover, the Working Party agreed that the following tasks should be undertaken in the light of the objectives set out under I. above:

- (a) an analysis and discussion of the relationship between developments in trade and changes in production structures aimed at facilitating a better understanding of the nature of the adjustment process, by helping to identify significant modifications in production and trading structures over time and the factors relevant to these modifications;
- (b) consistent with the GATT and the results of the multilateral trade negotiations, 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 experience.

### III. Procedures

The Working Party proposed that, without prejudice to the specific competence of other bodies, the Council should entrust to it the tasks set out under II. above. Reports by the Working Party should be transmitted to the Committee on Trade and Development and the Consultative Group of Eighteen before being submitted to the Council.



ANNEX II

WORKING PARTY ON STRUCTURAL ADJUSTMENT

Checklist of documents

Reports of the Working Party and notes on meetings

- L/5120 - 1981 Report to the Council containing mandate of the Working Party
- L/5246)  
L/5305)- Notes by the secretariat on meetings of the Working Party  
L/5323)
- L/5347 - Report of the Working Party of July 1982 to the Preparatory Committee

Ministerial Declaration

L/5424

Remarks by Amb. Blankart

Spec(83)3

Secretariat studies

- L/5156 - Relevance of the Articles and Instruments of GATT to the Process of Structural Adjustment - Note by the secretariat
- Spec(82)5/Rev.1 - Changes in the Structure of Production, Employment and Trade since 1963 - Note by the secretariat

Country examinations

<u>Country</u>	<u>Submission concerning experience with structural adjustment</u>	<u>Record of discussion</u>
Argentina	Spec(82)6/Add.7	Spec(83)29/Add.1
Australia	Spec(82)6/Add.3 & Suppl.1	Spec(83)29/Add.2
Austria	Spec(82)6/Add.13	Spec(83)29/Add.3
Brazil	Spec(82)6/Add.11 & Suppl.1	Spec(83)29/Add.4

<u>Country</u>	<u>Submission concerning experience with structural adjustment</u>	<u>Record of discussion</u>
Canada	Spec(82)6/Add.6 & Suppl.1	Spec(83)29/Add.5
Chile	Spec(82)6	Spec(83)29/Add.6
Czechoslovakia	Spec(82)6/Add.14	Spec(83)29/Add.7
European Communities	Spec(82)6	Spec(83)29/Add.8
Finland	Spec(82)6 & Suppl.1	Spec(83)29/Add.9
Hong Kong	Spec(82)6	Spec(83)29/Add.10
Hungary	Spec(82)6/Add.2	Spec(83)29/Add.11
India	Spec(82)6/Add.2 & Suppl.1	Spec(83)29/Add.12
Japan	Spec(82)6/Add.1	Spec(83)29/Add.13
Malaysia	Spec(82)6/Add.10	Spec(83)29/Add.14
New Zealand	Spec(82)6/Add.2	Spec(83)29/Add.15
Norway	Spec(82)6/Add.8	Spec(83)29/Add.16
Pakistan	Spec(82)6	Spec(83)29/Add.17
Poland	Spec(82)6/Add.12 & Corr.1	Spec(83)29/Add.18
Romania	Spec(82)6/Add.15	Spec(83)29/Add.19
Singapore	Spec(82)6	Spec(83)29/Add.20
Spain	Spec(82)6 & Suppl.2	Spec(83)29/Add.21
Sweden	Spec(82)6/Add.2	Spec(83)29/Add.22
Switzerland	Spec(82)6/Add.5	Spec(83)29/Add.23
Turkey	Spec(82)6/Add.9 & Rev.1	Spec(83)29/Add.24
United States	Spec(82)6/Add.4 & Suppl.1	Spec(83)29/Add.25
Yugoslavia	Spec(82)6/Add.16	Spec(83)29/Add.26
EC member States	Spec(82)6/Add.17	Spec(83)29/Add.27

ANNEX III

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

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 service sector has shown a consistent tendency to expand considerably faster than the average for the major economic sectors (agriculture, mining, manufacturing and services), while agriculture has recorded the slowest expansion. The sectors most affected by cyclical fluctuations and by the slowdown in economic activity after 1973 were mining and manufacturing production 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 industries' 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. In the oil-importing countries the share of manufactures continued, between 1973 and 1980, 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 had become the

largest category in the manufactures exports of the major exporters of manufactures among developing countries, as well as in those of most developed countries.

(iv) In regard to the agricultural products examined, changes in the international distribution of trade were generally more pronounced than those of 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 shares 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, they remained the largest exporting area, though their share declined. 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 (18 per cent) than for engineering products, chemicals and steel (6 per cent).