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## PROSPECTS FOR INCREASING TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

Note by the Secretariat

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[1] Being issued as an addendum to this document

# PROSPECTS FOR INCREASING TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

## PURPOSE AND SCOPE

1. At the Thirty-Eighth Session of the CONTRACTING PARTIES in November 1982, it was agreed in Paragraph 5 of the Ministerial decision on GATT Rules and Activities Relating to Developing Countries that the Committee on Trade and Development would carry out "an examination of the prospects for increasing trade between developed and developing countries and the possibilities in GATT for facilitating this objective". Any action taken in this regard is to be reviewed by the CONTRACTING PARTIES at their 1984 Session.

2. At the Forty-Ninth Session of the Committee on Trade and Development (COM.TD/114) there was an initial exchange of views on this matter and it was agreed that appropriate background material would be prepared by the secretariat for the Committee's consideration. At its fifty-first session the Committee had before it in document COM.TD/W/393 an outline of the background material which the secretariat was preparing. The Committee agreed that the secretariat should proceed with the preparation of the background material and that the matter would be reverted to at the next meeting of the Committee.

3. The present note has been organized along the lines envisaged in COM.TD/W/393, and following some brief introductory comments, is divided into three main sections. The first section examines overall developments in the trade and payments situation in developed and developing countries since 1970. The second section focuses in some detail on changes in the structure of merchandise trade with respect to country groupings and various individual countries. This section also contains a discussion and analysis of the implications for trade of the current financial situation facing certain developing countries. The final section examines past trade liberalization efforts in the GATT in the context of trade between developed and developing countries. It then concludes with a consideration of the implications of the foregoing analysis for trade prospects between developed and developing countries in relation to the GATT's role in this area.

## BACKGROUND

4. An examination of the prospects for increasing trade between developed and developing countries cannot be undertaken without taking account of prevailing economic and economic policy conditions, and the way these have changed over the last few years. Specific aspects of the world economic situation, particularly those relating to international trade, are examined in some detail in the main body of this note, but it has to be borne in mind that developments observed in the trade field are often reflections or extensions of what is taking place in national economies.

5. Developments both in the world economy and in economic policy-making during the past ten years have been the subject of numerous commentaries and analyses in the GATT and other fora. In several ways the years 1970-73 represented a turning point for the world economy. It was during these years that a long period of sustained high growth came to an end, and the economic environment changed in several ways. Since 1973, a number of seemingly intractable problems have emerged; many developing countries have suffered from severe external payments difficulties, in part because of the sudden increases in the price of oil; high and rising unemployment has persisted in developed and developing countries alike; rapid inflation has characterized many economies and has fallen in developed countries after 1980 only in the context of the most prolonged and severe recession since the 1930s. In most developed countries the share of national income devoted to productive investment has fallen. In developing countries efforts to maintain investment have meant lower growth in already low levels of consumption and have contributed to severe payments difficulties and mounting external debt. While the oil price rise of 1973-1974 coincided with the end of a long period of sustained growth, when the international economy was already entering into a phase of contraction, there appears to be a general recognition that the economic difficulties experienced by the world economy over the last ten years have their roots in growing stuctural rigidities which became apparent in most of the developed countries prior to 1973. In this connection, the sudden rise in oil prices may be seen as an aggravating factor in the economic developments which dominated the 1970s.

6. Irrespective of different experiences in national economies, all countries have suffered for the general increase in uncertainty which has accompanied these economic developments. Some of this uncertainty has been generated through increasing resort by governments to measures aimed at slowing down adjustments in production structures which would otherwise take place in the context of changing economic circumstances. One important effect of these policy interventions, in addition to creating uncertainty, has been to reduce the role played by international trade in promoting specialization and growth.

7. Since 1983 there have been signs of impending economic recovery in the United States, and to a lesser extent in other developed countries; inflation has been largely brought under control, and although unemployment remains high, it would appear that many developed countries are in a position to attain higher rates of growth than those which characterized the 1980-82 period. Against the background of these developments, it becomes important to consider two questions: (a) what may be done on the basis of increasing demand and improved investment prospects to deal with the structural rigidities that have fostered the recent growth of protectionism; (b) how the strengthening of the trading system and the liberalization of trade flows might accelerate and reinforce economic growth and recovery on a world-wide basis. Increased trade between developed and developing countries must be seen as an essential element in the answers to both these questions.

8. The major part of this note is concerned with an historical examination of trends and developments in trade flows between various countries and groups of countries. It should be noted that such an examination cannot identify in any numerical terms the role that policy has played in determining these trade flows, nor what prospects exist for further expansion of trade. However, based on a consideration of

developments during the past few years, and in particular of constraints affecting the continued expansion of trade, an effort is made in the latter part of this note to focus on future possibilities of growth and the policy factors which might bear on these possibilities.

## I. THE CURRENT TRADE SITUATION

9. This section is devoted to an examination of developments in the trade and payments situation in developed and developing countries since 1970. The balance-of-payments summary tables (Tables 1, 2 and 3) included in Annex I provide an indication of the external payments situation of selected countries as well as of certain country groupings for the period 1970-81.[1] Some of the problems with the reported statistics are discussed in detail in Annex II. While caution is warranted in attaching too much significance to any single figure, the statistics provide reliable indications of the broad trends in the external payments situation of various groups of countries.

### 1. Trade and payments situation of developed countries

10. The traditional surplus that the developed countries enjoyed up until 1973 in both their trade and current account balances was sharply reversed in 1974 when the respective balances registered deficits of US$19 billion and US$10.7 billion. The corresponding changes in the capital and reserves account included a reduction in the net outflow of long-term capital, an increase in net short-term capital inflows and the running-down of reserves. The deficit on the trade balance in 1974 would have been significantly larger had it not been for a 35 per cent increase in the value of developed country exports in that year. While intra-developed country trade accounted for 65 per cent of this increase, the growth in the value of exports to the oil-exporting countries was 70 per cent, and to non-oil developing countries 47 per cent. Both these figures are significantly higher than the 29 per cent increase registered by exports to developed countries in 1974.

11. The impact of the second oil price increase on the balance-of-payments situation of developed countries was first felt in 1979. In that year the trade deficit reached US$32.8 billion, after having registered a surplus of US$10 billion in the previous year. Most of the deficit was financed through drawing on reserves (US$20.7 billion) and through some short-term capital inflows. In 1980, the deficit on the developed countries' trade balance had reached US$56.9 billion. As in the 1973-74 period, the growth of exports to developing countries in 1979-80 (29 per cent to non-oil developing countries) exceeded the increase in intra-developed country trade (16 per cent). Again, the pattern of adjustment to the external balance in 1979-80 was similar to the one observed during the first oil crisis. Changes in the capital account comprised a decline in the net outflow of long-term capital, a large increase in the net inflow of short-term capital and a further reduction in reserves.

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[1] As pointed out in a note attached to the statistical tables contained in an addendum to this document, the country classifications employed sometimes vary according to the manner in which statistical material is available for particular purposes. Country or area designations do not imply any judgement about the legal status of countries, nor do they necessarily imply any judgement about the stage reached in the development process by a country or area.

12. The responses of the developed countries to the two oil shocks, therefore, were quite similar. Significant increases in the value of exports, with the developing countries accounting for a greater than average market growth, were coupled with positive net inflows of capital (particularly short-term) and reductions in reserves.

13. In discussing the adjustment process in developed countries, mention should be made of the significant headway they have made in the conservation of energy. Not only have net imports of oil declined steadily since 1979 (in value), but most developed countries have succeeded in reducing the energy intensity of their production, so that less oil was consumed per unit of output in 1983 than in 1973.

14. When analyzing the balance-of-payments figures for the developed countries in the post-1977 period, the increasing size of the reported errors and omissions needs to be taken into consideration. This is a residual item in the balance-of-payments which is an indication of the discrepancy between the balance on the current account and that on the capital account and reserves. In the period from 1978 to 1981, errors and omissions averaged US$30 billion, a significant amount when compared to the reported balances on the current account. It seems likely that a large portion of these errors and omissions result from under-reporting of capital inflows and of services credits, particularly shipping and investment income. The latter category includes interest on loans and dividends on portfolio investment, items which registered significant increases in the post-oil crisis period. It is quite likely, therefore, that the developed country balance on the current account incorporates a downward bias which results from errors and omissions in the services account (see Annex II).

15. Nevertheless, it is safe to conclude on the basis of the data presented in Tables 1 and 2 that adjustment to the first oil price increase was more rapid than that to the second one, despite the fact that the magnitude of the price rise in 1973-74 by far surpassed that of 1979. In 1975, the trade balance of developed countries already showed a surplus, brought about by a substantial rise in exports in 1973-74, and a modest increase in 1974-75, combined with a small decline in imports in the same year. The latter resulted from declining imports of non-food primary products.

16. In the post-1979 period, on the other hand, the trade balance was in deficit, albeit declining, up until 1983, when a US$2 billion surplus was registered. Export growth in 1979-80 was slower than in 1973-74 and there was a decline in the value of both exports and imports in 1981 and in 1982. A 1.3 per cent decline in the value of exports in 1981, compared with a 4.2 per cent decline in the value of imports, led to a reduction of the trade deficit in that year. Similarly, exports declined by 5 per cent in 1982, while imports contracted by 7 per cent, leading to a further reduction in the trade deficit.

17. Clearly, developments in the trade flows of developed countries in 1981 and 1982 cannot be examined in isolation from the severe economic recession that affected all aspects of world economic activity. The value of international trade for the world as a whole declined by 1.5 per cent and 6 per cent in 1981 and 1982, respectively. As reported in Table 4, international trade stagnated in volume terms in 1981 and actually contracted by 2 per cent in 1982. Trends in the volume of world output were quite similar with only a 1 per cent growth rate in 1981 and a 2 per cent reduction in 1982.

18. The recent economic recession that followed the second round of oil price increases was, by all indicators, the severest one experienced by the developed countries taken as a group since the 1930's. Developments in international trade engendered by the oil price increases, and the consequent reduction in the import capacity of developing countries, clearly contributed to the severity of the recession. However, it is important to note that the increasing structural rigidities exhibited by the economies of the developed countries in the past decade limited the potential for adjustment to these adverse external developments. When such structural inflexibility was coupled with the adoption of restrictive monetary policies after the sharp resurgence of inflation in 1979-80, economic performance in the developed countries deteriorated significantly, as indicated by the growth rates in production and exports in 1980-82. In 1981, production of manufactured goods increased in volume terms by only 0.5 per cent, while exports increased by 2 per cent, both figures being lower than the average annual growth rates achieved in the 1973-82 period, and significantly below those registered in 1963-73. Performance in 1982 was even weaker, with 4 per cent and 3 per cent declines respectively in the volume of production and export of manufactured goods. Provisional indicators of economic activity in 1983 show some improvement in the situation, led by an unexpectedly strong recovery in the United States. The value of both imports and exports of developed countries increased in 1983 for the first time since 1980.

19. Certain general observations can be made about the external payments situation of developed countries. First, developed countries have traditionally enjoyed a surplus in the services account. Throughout the 1970's, the increased surplus in services contributed significantly to offsetting the deficit in the trade balance. The improved performance of the developed countries in services was concentrated mainly on two items, namely "factor services", which consist of income on direct and portfolio investment as well as interest on loans, and "other private services" which comprise several services including banking, insurance, construction/engineering and telecommunications. Growth in these two categories of services was clearly related to the changes brought about by the two oil price increases. The growing demand by oil-exporting countries for certain services, as well as the role of financial intermediation assumed by banks in developed countries, account for the increasing importance of services in the international transactions of developed countries.

20. A second observation relates to transfers which are reported separately from merchandise and services transactions. Developed countries have traditionally been net "exporters" of private and official transfers. The largest item in private transfers is accounted for by the remittances of foreign nationals working in the reporting country. The role of developed countries as providers of employment for some developing countries, in particular the Mediterranean countries, is well known. Recently, however, economic difficulties in developed countries have affected policies toward migrant labour.

21. Finally, a third general observation concerns the role of developed countries as capital-mature or capital-surplus economies. These countries have traditionally been net providers of long-term capital, as seen by the continued deficit they run on the long-term capital account. Of these capital flows, fluctuations in net foreign direct investment have been the

smallest in magnitude. However, trends in direct investment and other types of long-term capital have been quite similar, with a significant decline in the net outflow in 1974, and then a declining trend since 1979, reflecting adjustments after the oil price increases and the recessionary conditions prevailing since 1980. It is interesting to note that 1981 was the first year in at least ten years when developed countries, taken as a group, registered a small surplus (US$0.4 billion) on their long-term capital account. This resulted mainly from developments in the United States economy, which led to the emergence of the US as a net importer of long-term capital in 1981. While the US had been a net exporter of long-term capital for all years between 1970 and 1980 with net outflows amounting to US$7.2 billion in 1980, in 1981 and 1982 it registered net long-term capital inflows of US$13.1 billion and US$6.2 billion respectively (see Table 2).

## 2. Trade and payments situation of developing countries

22. In view of the radically different experiences of the oil-exporting and the non-oil developing countries regarding their trade and payments situation since 1970, the following discussion will treat these two groups of countries separately. However, it should be borne in mind that even the category of major petroleum exporters as defined in Table 1 hides significant differences among countries. The external payments situation of countries like Saudi Arabia and Kuwait is very different from that of countries like Indonesia or Nigeria. The experiences of the latter two countries (amongst other oil-exporters) have, for example, exhibited certain similarities to those of many non-oil developing countries. Several oil-exporting countries have been net importers of long-term capital throughout the 1970s, and not all these countries have consistently run current account surpluses during the period. Similarly, the group of "other developing countries" includes countries with very different economic structures and trade performances. However, this group is relatively homogeneous ( in fact more so than the group of developed countries) to the extent that, with few exceptions, all countries included in the group experienced a deterioration in their current account balances during the period under study.

### Oil-exporting developing countries

23. The most significant development in the balance-of-payments of the oil-exporting countries was clearly the two rounds of oil price increases which generated large surpluses in their trade and current account balances. Table 1 shows that the value of oil-exporting country exports increased three-fold from 1973 to 1974 and again two-fold from 1978 to 1980. Correspondingly, the trade balance stood at US$84.4 billion, US$110.1 billion and US$171.1 billion in 1974, 1979 and 1980 respectively.

24. While the external payments profile of the oil-exporting countries showed similar trends in the two post-oil price increase periods, the elimination of the current account surplus after the second round of price increases was more rapid compared to the earlier one. The current account surplus, which jumped from US$5.3 billion in 1973 to US$64.0 billion in 1974, had dwindled to US$4.4 billion by 1978. By contrast, the US$104.2 billion surplus in 1980 was already more than halved by 1981, and in 1982, the current account balance registered a small deficit.

25. The underlying reasons for the elimination of the current account surplus were also quite different between these two periods. After 1974, the sizeable increase in imports of goods and services accounted in large part for the erosion of the current account surplus. From 1974 to 1978, imports of goods and services increased by almost 250 per cent, with imports from developed countries accounting for approximately 80 per cent of this increase. After 1980, on the other hand, the major factor in the rapid disappearance of the current account surplus was the steep fall in the volume of oil exports, which declined by approximately 50 per cent from 1979 to 1982. By contrast, the volume of oil exports in the 1975-78 period declined by less than 4 per cent. The large and sustained decline in oil export volume from 1979 to 1982 reflected the effect on oil demand of the recession in oil-importing countries on the one hand, and of fuel conservation efforts triggered by higher prices, on the other.

26. The traditional deficit of the oil-exporting countries on the services account increased throughout the period from 1970 to 1982. This reflected growing demand for the services of contractors and consultants, chiefly from developed countries, to carry out development projects undertaken by these countries. Service receipts during this period also increased significantly, largely due to the returns on foreign assets acquired by oil-exporting countries. Investment income receipts more than tripled from 1975 to 1980, in part also reflecting the high international interest rates prevailing in the latter part of that period.

27. The other significant development in the current account of the oil-exporting countries was the increasing size of the net private transfer outflows. The increasing demand for migrant labour, particularly in some of the Gulf states, seems to have benefitted the developing countries in particular.

28. The capital account and changes in reserves reflect the developments observed in the current account. While there were important differences among countries, the oil-exporting countries as a group were net exporters of capital every year during the period 1974-81. Movements in reserves also corresponded closely to the changing level of the current account surplus. However, reserves increased in every year during the period 1973 to 1981 except in 1978 and 1981, two years in which the current account surplus of the oil-exporting countries experienced significant deterioration compared to the immediately preceding years.

Non-oil exporting developing countries

29. Turning to the non-oil developing countries, the most striking feature of their external payments situation in the period from 1970 to 1981 is the steady deterioration of their current account balance from US$10 billion in 1970 to almost US$90 billion in 1981. Though not strictly comparable with the presentation in Table 1, statistics published in the IMF World Economic Outlook 1983 show a decline in the current account deficit of the non-oil

developing countries in 1982.[1] The large increases in the current account deficit reflect mainly three developments in the international environment:

i) the two rounds of oil price increases and the resulting terms of trade loss for non-oil developing countries;

ii) the recessions in 1975 and in 1980-82, resulting in declining world demand for developing country exports and depressed commodity prices, with further deterioration in the terms of trade;

iii) high international interest rates in 1981 and 1982 on an increasingly larger volume of international debt, which had severe consequences for debt-servicing requirements and have resulted in increasing outflows of service payments.

30. The effect of the first oil price increase was a three-fold rise in the trade and current account deficit of the non-oil developing countries from 1973 to 1974. The deterioration in the terms of trade of the developing countries as a result of the oil price increase was further reinforced in 1975 by a significant decline in non-oil commodity prices (18.2 per cent in nominal terms and 27.6 per cent in real terms in that year[2]). The world-wide recession in 1975 not only had the effect of depressing commodity prices, but it also led to a decline in the volume of developing country exports in 1975. The result was a further increase in the deficits on the trade and current account balances.

31. During this period, the current account deficit was financed through large inflows of capital, provided by both private and official sources, and to a lesser extent through the use of reserves. In the period 1973 to 1975, net inflows of long-term capital amounted to over US$45 billion, of which direct investment accounted for less than US$10 billion. At the same time, there was a sharp increase in the level of short-term borrowing, from virtually nil in the period from 1970 to 1973, to US$6.9 billion in 1974 and US$7.2 billion in 1975. International borrowing in this period was undertaken against a background of a plentiful supply of international capital, relatively low levels of accumulated debt which had been partly amortized as a result of high commodity prices in 1972-74, and expectations of high rates of growth in output and export earnings. Conditions after the second oil price increase were radically different on all these fronts.

32. Recovery from the first oil price increase was relatively rapid, though by no means complete. As a result of the increase in world-wide demand, exports of non-oil developing countries increased vigorously, starting in 1976, and continued to grow until 1978. In this period, the

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[1] The country coverage of the groupings in the IMF publication is different from that used in Table 1. While Angola, Bahrain, Brunei, Congo, Ecuador, Gabon, Mexico, Syria and Trinidad and Tobago are included by the IMF among non-oil developing countries, the same countries are treated as oil exporters in Table 1. The IMF publication shows, for non-oil developing countries, a current account deficit of US$108 billion in 1981 (compared to US$89 billion in Table 1), and US$87 billion in 1982.

[2] See IMF World Economic Outlook, 1983. The figure given for the decline in real terms is calculated by deflating the nominal prices of commodities by the price of manufactures.

value of non-oil developing countries' exports expanded at an annual rate of 18 per cent (approximately 8 per cent in volume terms), while commodity prices also picked up in 1976 and 1977 (before they fell again in 1978 almost to their 1975 level in real terms). These positive developments led to a contraction of the deficits on the current account from US$43 billion in 1975 to US$30 billion in 1977 (and US$32.6 billion in 1978). During this period, the net inflow of capital continued to increase, as part of this inflow was used to build up international reserves. While direct investment in non-oil developing countries increased somewhat in this period (from US$4.7 billion in 1975 to US$7.5 billion in 1978) much of the capital inflow was in the form of loans from international banks.

33. The second round of oil price increases in 1979 and 1980 swamped the modest progress made in reducing the trade and current account deficits in the 1976-78 period of high growth. By 1980, the current account deficit had exceeded US$80 billion. The financing of this deficit required greater inflows of capital, which were acquired mainly from private sources and were increasingly of a short-term nature. At the same time, the non-oil developing countries started in 1980 to draw on their international reserves.

34. Thus the non-oil developing countries were clearly confronting serious balance-of-payments difficulties when the world economy entered the worst recession experienced in the post-war period. The effect of the world-wide decline in output and import demand had severe consequences for these countries. Their terms of trade, which had been adversely affected by the oil price rise, deteriorated even further as non-oil commodity prices fell in real terms to their lowest levels ever in the post-war period. The weakness of foreign demand also affected the volume of exports, which grew by less than 1 per cent in 1982. The value of exports in the same year declined for the first time since 1975.

35. This reduction of export earnings significantly worsened the external payments situation of the non-oil developing countries. At the same time, international interest rates rose rapidly in 1980 and 1981, mainly as a result of anti-inflation policies followed by the major developed countries. The non-oil developing countries were particularly vulnerable, since the rapid rise in commercial bank loans during 1980 and 1981 had sharply increased the proportion of their debt subject to market interest rates. This deterioration in the balance-of-payments led to the adoption by most developing countries of measures to limit imports. The volume of non-oil developing country imports declined by almost 8 per cent in 1982, a development which had severe implications for growth of output in these countries as well as for the recovery of international trade.

36. One of the few positive developments in the external payments situation of the non-oil developing countries is the increasing receipt of net private transfers. Such transfers increased more than three-fold from 1973 to 1980. While a majority of these transfers are received by Mediterranean countries which export labour to Western Europe, there was also a significant increase in the demand for migrant labour in some of the richer oil-exporting countries.

Least-developed countries

37. Developments in the international environment in the period from 1970 to 1981 affected the least-developed countries with particular severity. Reliance on few commodities for export earnings, the small share of manufacturing in gross national output and the generally low level of development limited the range of adjustment mechanisms and policies available to the least-developed countries. In 1981, only 9 per cent of the GDP of all least-developed countries originated in the manufacturing sector. As far as the commodity structure of exports is concerned, about one-half of the least-developed countries' total exports consist of food and agricultural raw materials, among which coffee, cotton, jute, cocoa, tea and oilseeds are predominant. Primary products of agricultural origin account for over three-quarters of total exports in twenty-one out of thirty-six least-developed countries. In only four countries is the share of primary products of agricultural origin in total exports lower than one-third. Exports of manufactured goods, on the other hand, comprise less than 3 per cent of total exports in twenty out of thirty-six least-developed countries. The structure of domestic production and exports thus made the least-developed countries particularly vulnerable both to the recessionary environment prevailing in their major markets and to the declines in commodity prices.

38. The external payments situation of the least-developed countries has deteriorated throughout the period from 1970 to 1981. The balance on the current account (excluding official transfers) up until 1979 reflects developments in the trade balance, as the gradual expansion of the deficit on the services account was offset by increases in net private transfers (largely workers' remittances). In 1980 and 1981, however, not only did the deficit on services decline, but net private transfers increased sharply in 1980 before registering a decline in 1981. As a result of these positive developments in the balance on services and private transfers, the current account deficit from 1979 to 1981 was lower than the deficit on the trade account.

39. The trade deficit, which amounted to US$1.2 billion in 1973 stood at US$8.7 billion in 1981, larger than the value of total exports in that year. The export performance of the least-developed countries follows closely developments in non-oil commodity prices, given the importance of such commodities in the export structure of the least-developed countries. During the commodity boom years, the export earnings of the least-developed countries increased significantly: by 42 per cent in 1973, 26 per cent in 1976 and 20 per cent in 1977. In those years, the increases in all non-oil commodity prices in real terms were 32 per cent, 12 per cent and 11 per cent respectively. On the other hand, export performance was poor in 1975, 1978 and 1981, with respective increases in export earnings of 2.3 per cent, 1.3 per cent and -14.8 per cent. In those three years, the index of non-oil primary commodity prices in real terms, registered declines of 28 per cent, 17 per cent and 10 per cent, respectively. Commodity prices in 1981, which were at the lowest level registered in the post-war period, declined by a further 10 per cent in 1982.

40. The export earnings of the least-developed countries were affected not only by changes in the prices of their export commodities but also by fluctuations in the demand for these commodities. Both developments generally resulted from the changes in economic conditions in their major markets.

41. One important development in the current account of the least-developed countries, which has already been alluded to, is the increasing importance of workers' remittances as a source of foreign exchange. In 1980 net private transfers amounted to US$2.8 billion, more than one-third of total exports in that year. Workers' remittances as a source of foreign exchange are particularly important for certain least-developed countries such as Bangladesh, Sudan and Yemen, which have nationals working in the Gulf States.

42. Another important source of foreign exchange has been official transfers from industrialized and OPEC countries. Since 1979, when net official transfers to all least-developed countries amounted to US$3.2 billion, however, there has been a decline in such transfers.

43. On the capital account, there has been a trend toward increasing net inflows of long-term capital. While a large part of long-term capital inflows are likely to be on concessional terms, there has recently also been an increase in net short-term capital flows. The increased indebtedness of the least-developed countries has been reflected in the higher interest payments made by these countries.

Summary

44. To summarize briefly, the most significant developments in the external payments situation during the 1970's are the large increases in the price of oil in 1973-74 and again in 1979, and the accompanying changes in international trade and financial flows.[1] While the oil price shocks led to a serious deterioration in the trade balances of all groups of countries other than the oil-exporting group, the developed countries have been able to accommodate more easily the adjustments required by the oil price rises than have the non-oil developing countries taken as a group. The trade deficits of the non-oil exporting developing countries have risen sharply, especially after the second increase in oil prices, reaching a total of US$77.6 billion in 1980.

45. The counterpart to the sudden changes in trade flows is to be found in developments in the international financial sector. Following the oil shocks, concern over the impending liquidity crisis was allayed as the recycling of the capital surpluses of oil-exporting countries took place relatively smoothly. The financial flows from capital-surplus to capital-deficit countries took three main forms:

i) increased expenditures of the oil-exporting group on imports of goods and services;

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[1] It should be noted that while the above discussion has focused mainly on broad country categories, experiences have differed somewhat among countries within the categories. While the individual country data given in Tables 2 and 3 provide some indication of such differences, it would seem that they do not modify the basic picture significantly, at least as far as the non-oil developing countries are concerned.

ii) direct and other equity investment abroad by the oil-exporting group; and

iii) deposits by the oil-exporting group in international banks.

46. The developed countries were the main beneficiaries of the first two types of transfers, while primarily the developing countries were the final recipients of the capital funds deposited in international banks. The large international banks performed the intermediary function of attracting large deposits from the oil countries on the one hand and lending them to the non-oil developing countries on the other. Thus the developing countries financed their current account deficits mainly through debt-creating capital flows. While they could not expand their exports to the oil-rich countries as much as the developed countries did, and there were limits to the extent to which they could attract equity capital inflows, some of them benefited from increasing aid flows (either bilaterally or through multilateral channels) as well as from increasing inflows of private transfers (i.e. remittances from nationals working in the OPEC countries). The increased indebtedness of the non-oil developing countries, in conjunction with the changes in the structure of this debt in the direction of more private, shorter-term and floating interest rate bearing debt, have led to what has been described as the debt or financial crisis in the past few years.

47. While the two rounds of oil price increases in the 1970s resulted in significant shifts in the value and direction of trade and financial flows, with particularly adverse consequences for some of the non-oil developing countries, the 1980-82 recession placed even more severe strains on the flexibility of the trading and financial environment. Declining demand for the exports of developing countries, increasing resort to protectionist measures, depressed commodity prices and high international interest rates on accumulated debt have introduced severe constraints on the ability of non-oil developing countries to generate foreign exchange. The response to these difficulties has often taken the form of curtailing imports, and this has affected the growth of domestic output and income in these countries. A number of these issues will be considered further in Section II.3 below.

48. Finally, while the above analysis of the trade and payments situation of developed and developing countries has concentrated on the period of rapid economic change since the early 1970's, it is important to note certain longer-term structural features of the balance-of-payments of countries at different stages of economic development. In particular, the recent large current account deficits of the non-oil developing countries are not so much a new feature of their economic situation, as the aggravation of an underlying characteristic of developing economies in rapid transition. As developing countries seek to diversify and build up their economies so as to achieve rapid and sustained growth, it is to be expected that their investment needs will not be fully met from domestic savings. The resulting net capital inflows are reflected in current account deficits, and these are intrinsic to the development process itself. Moreover, the import requirements of new and expanding industries are frequently greater in the early stages of industrial development than in later stages when an industrial infrastructure has been established. It may also take time for new industries to develop any export potential that they possess. Whilst none of these features of development alter the fundamental role of trade in the process of economic growth and development, and much may depend on the choice of development strategies, they do mean that developing countries inevitably face balance-of-payments pressures at a certain stage in their development.

## II. TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

49. In this section consideration is given first to the relation between production growth and trade growth over the period from 1963 to 1982. The growth rates computed in Table 4 break down production and trade sectorally and by country groupings, albeit in a highly aggregated fashion. Table 5 shows changes in the ratio of exports to GDP for various countries and groupings of countries over time. The second part of this section contains an analysis of changes in the pattern of trade between developed and developing countries over the last twenty years. It begins with an overview of changes in the composition of exports and imports by regional groupings from 1963 to 1982 (Tables 6 and 7). This is followed by an analysis of the commodity breakdown of exports of certain countries and groups of countries to major markets in selected years (Tables 8, 9 and 10). In Table 11 and indication is given of changes in the shares of developing country exports in world exports between 1965 and 1980. Table 12 contains further information on trade flows between developed and developing countries between 1970 and 1982. Table 13 attributes the change in the value of exports for the world as a whole, and for developed, non-oil and oil exporting developing countries to each of the regional groupings identified in the table. The final part of Section II contains an analysis of the evolution of the problem of external indebtedness faced by a number of developing countries and the implications of this situation for international trade. The discussion is based substantially on the statistical information contained in Tables 14, 15, 16 and 17.

### 1. Trends in production and trade

50. Table 4 shows how production and trade have grown in volume terms during the period from 1963 to 1982. Figures are given for world production growth and also for production growth in developed countries, developing countries and the Eastern trading area; in each case the "all commodities" figures are broken down between agricultural products, mining and manufactures. On the trade side the regional breakdown is the same except for the absence of separate figures for the Eastern trading area, and only agricultural products and manufactures are shown separately from "all commodities". Before examining the growth rates given in Table 4, it is worth emphasizing that volume series of this nature should be regarded as a broad indication of changes in production and trade over time and not as an exact representation of what has occurred. There are a number of factors which make it impossible to be more precise; as mentioned in the notes to Table 4, one source of inaccuracy is the reliance placed on different sources in compiling the figures. In addition, there are the well known difficulties associated with comparing volume figures over time and between countries, relating to such considerations as exchange rate variations, quality and composition changes in output and incomplete data coverage. Finally, it may be noted that production data are not always strictly comparable between countries in the Eastern trading area and market economy countries because of differing national accounting practices.

51. A widely observed phenomenon over the last twenty years or more has been the tendency for growth in trade to exceed growth in production. Table 4 indicates that while world production grew by 6 per cent and 2 per cent in the periods 1963 to 1973 and 1973 to 1982 respectively, the figures for trade growth over the same two periods were 9 per cent and 3 per cent respectively. A closer examination of the growth data in terms of

year-on-year changes and the commodity disaggregation suggest that the above relation does not always hold, particularly in times when economic activity is slowing down. However, the overall trend is clear enough, with trade becoming an increasingly important component of income.

52. Apart from the growth figures given in Table 4, another rough way of showing the growing importance of trade to various economies over the years is to calculate changes in the ratio of exports to gross domestic product. Table 5 shows exports as a percentage share of GDP in current values for selected countries and groups of countries for the years 1960 and 1980. Over this twenty year period the ratio of exports to GDP has virtually doubled in developed countries, from 9 per cent to 17 per cent. In the non-oil exporting developing countries, the ratio moved from 16 per cent to 26 per cent over the same period, and for the oil exporters the figures are 13 per cent and 23 per cent.

53. The ratios given for individual countries in Table 5 show that the situation varies widely between countries, both in terms of the absolute value of exports in relation to GDP, and changes in the ratio over time. As would be expected, countries with relatively large domestic markets tend to have lower ratios than smaller countries. With the sole exception of Argentina, the ratio has moved in an upward direction between 1960 and 1980 for the countries shown in the table. It moved from 1 per cent to 30 per cent in the case of the Republic of Korea at one end of the spectrum, and by only small amounts for some other countries such as Malaysia and Peru. The figures for Argentina, which show a fall from 16 per cent to 5 per cent in the ratio from 1960 to 1980, are at least in part explained by the approximate nature of this measure. In particular, the current values underlying the ratio do not take account of differential inflation rates between categories of exported goods and domestic production, and by showing only two years it is not possible to capture the wide variations in the ratio which might occur from year to year. More generally, the conceptual problems associated with a comparison between a value-added measure (GDP) and a gross output measure (exports) are well known. Despite these considerations, the figures in Table 5 taken together point clearly to the growing degree of interdependence among trading nations.

54. Returning to the volume growth data presented in Table 4, it is worth highlighting a few of the salient trends revealed by these figures. One feature of the world economic situation which is brought out in the table with respect to both production and trade is the marked reduction in growth in the period 1973 to 1982 as compared to the previous ten years. Some of the reasons for this have been alluded to above. The only qualified exception to this pattern was agriculture, where in the latter period world production growth only fell moderately by comparison to the 1963-1973 period, and where the reduction was attributable entirely to the Eastern trading area, since agricultural output growth in developed and developing countries was actually higher in the 1973-1983 period than in the previous ten years. It should be noted, however, that the actual rates of output growth in agriculture were significantly lower than those in other sectors from 1963 to 1973, and were of a similar order of magnitude compared to the other sectors in the second period.

55. A comparison of total production growth between the country groupings identified in Table 4 indicates that the Eastern trading area maintained higher average growth rates than developed and developing countries for the

twenty year period up to 1982. The growth rates of the latter two groups of countries were the same, at 5.5 per cent per annum, for 1963 to 1973, but in the second period, from 1973 to 1982, developing countries registered a 2 per cent average rate of total output growth compared to 1 per cent in the developed countries. The sharply reduced average rates of production growth for all countries from 1973 to 1982 are largely accounted for by the recessions of 1974-1975 and the latter part of the period.

56. As far as export growth figures are concerned, it is only possible to compare those of developed and developing countries, since there was no satisfactory volume growth series available for the Eastern trading area or for a breakdown between oil exporting and non-oil exporting developing countries. Despite the fact that developing countries registered the same level of total output growth as developed countries in the 1963-1973 period, and a higher rate in the 1973-1982 period, they lagged behind in total export growth in both periods. One important reason why developing countries have experienced lower export growth than developed countries over the last twenty years, and particularly in the last ten, is the relative weight in their total exports of agricultural products, and fuels, ores and minerals. These constitute by far the largest part of total developing country exports, and trade in these sectors has been less dynamic than that of manufactured goods. If the oil-exporting countries are treated separately, the export volume growth figure for non-oil developing countries for the period 1973-1982 is much higher than the aggregate figure, almost certainly above an annual average rate of 5 per cent. Such a rate suggests that non-oil developing countries enjoyed higher real export growth than developed countries over this period, and the analysis of trade shares undertaken below bears this out.

57. Any attempt at interpreting variations in growth rates over time between different commodity and country categories is not an easy task. One important consideration in this respect is the wide variation in performance within the commodity groupings and country categories. Moreover, even with a greater degree of disaggregation, it is extremely difficult to isolate the variety of factors, including those deriving from government policy actions, which explain particular levels of growth reported in Table 4. On the other hand, the above discussion has illustrated clearly both the growing economic interdependence of countries arising through trade and the significant reduction in the rate of economic growth which has characterized the world economy in the late 1970's and early 1980's.

## 2. Changes in patterns of trade

### The regional distribution of world exports and imports

58. Table 6 is a matrix of export flows indicating the geographical distribution of the exports of each country grouping designated in the table. The country groupings employed are developed countries, all developing countries, traditional oil exporters, other developing countries and the Eastern trading area, and the period covered is 1963 to 1982. All the percentage shares are calculated on the basis of current values. Table 7 is based on the same trade flow data as Table 6, but the percentage

shares sum vertically instead of horizontally, thus yielding the geographical distribution of imports instead of exports.[1]

59. As far as exports are concerned, it can be seen from the final column of Table 7 that in 1982 the developed countries accounted for about 64 per cent of the world total, and the shares for developing countries and the Eastern trading area in that year were 26 per cent and 10 per cent respectively. Breaking down the developing country share between oil exporting and other developing countries, the figures were 12 per cent and 14 per cent respectively. The most notable development in the geographical distribution of world exports from 1963 to 1982 was the approximate doubling of the share of oil-exporting developing countries, from 6 per cent in 1963 to shares ranging from 11 per cent to 15 per cent between 1978 and 1982. This increased share is attributable in large part to higher oil prices and is reflected mainly in reduced shares accounted for by developed countries and the Eastern trading area. The share of non-oil developing countries in total world exports has remained quite stable over the period.

60. Table 6 points to a number of changes in the geographical distribution of the exports of the different country groupings over the past twenty years. Taking the developed countries first, the share of intra-developed country exports in their total exports was rising in the 1960's and early 1970's, but then fell during the period after 1973. The latter trend would appear to be accounted for principally by increased import demand in the oil exporting developing countries. Non-oil developing countries accounted for a lower share of developed country exports at the end of the period than at the beginning, but the share has been moving steadily upwards from 1973, going from 13.5 per cent in that year to 16 per cent in 1981, before falling back to 15 per cent in 1982. The share accounted for by the Eastern trading area has averaged about 4.5 per cent throughout the period.

61. The geographical distribution of the exports of the traditional oil-exporting developing countries has changed in certain respects over the period taken as a whole. The share accounted for by developed countries rose in the 1960's, but showed a downward trend between 1968 and 1982, from 81 per cent to 73 per cent. Reductions in these shares are probably accounted for in part both by switches in oil supply sources and /or conservation efforts in developed countries. As far as the share of the exports of oil-exporting developing countries accounted for by non-oil developing countries is concerned, this fell from 21 per cent to 15 per cent between 1963 and 1968 and then rose again, reaching 23 per cent in 1982.

62. Turning to non-oil developing countries, there has been a significant drop in the share of their exports accounted for by the developed countries, from about 71 per cent in 1963 and 1968 to 63 per cent in 1982. The counterpart to this reduction is to be found in the growing share of intra-developing country exports; exports to traditional oil exporters increased from a 2 per cent share in 1963 to almost 8 per cent in 1982, with the bulk of the increase occuring in the 1970's. It is also notable that the share of exports accounted for by intra-non-oil developing country

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[1] In order to identify the shares of world exports accounted for by each country grouping it is necessary to read down the final column of Table 7, whereas the share of each country grouping in world imports is obtained by reading across the final row in Table 6.

trade rose by some 4 percentage points between 1973 and 1982. In considering the increased share of intra-developing country exports in the total exports of these countries, it is worth noting that a given increase in a percentage export share, say from 18 per cent to 23 per cent, implies considerably faster export growth than an equivalent share increase from say, 71 per cent to 76 per cent.

63. Finally, the distribution of exports of the Eastern trading area has changed markedly, with a large decrease in the share accounted for by intra-Eastern trading area exports, and significant increases in the shares of developed countries and oil-exporting developing countries. The share of Eastern trading area exports accounted for by non-oil exporting developing countries has not changed significantly throughout the period.

64. Turning now to a consideration of changes in the distribution of world imports, the final row in Table 6 does not show much variation in shares accounted for by different regional groupings, with the exception of an increase in the share of oil exporting developing countries from 3 per cent to 8 per cent from 1963 to 1982. The corresponding reductions in shares are distributed among the three other regional groupings identified in the table. The shares of developed countries, non-oil developing countries and Eastern trading area countries in world imports in 1982 were 65 per cent, 17 per cent and 9 per cent respectively.

65. With respect to the geographical distribution of the imports of the different country groupings during the past twenty years, as presented in Table 7, there are a number of similarities to the changes in the distribution of exports already noted above. For the developed countries, the share of imports from oil-exporting developing countries rose markedly in the wake of the oil price rises of the 1970s, and this was reflected mainly in a fall in the share of intra-developed country imports in the total imports of these countries. The shares of developed country imports accounted for by non-oil developing countries and the Eastern trading area have remained fairly stable throughout the period, with modest upward trends in both cases.

66. The geographical distribution of imports of the oil-exporting developing countries has changed somewhat during the period, with the share accounted for by the developed countries falling from 86 per cent in 1963 to 78 per cent in 1982. The corresponding increased shares were distributed in roughly equal proportions between developing countries and the Eastern trading area.

67. In the case of non-oil developing countries, it is not surprising to find that the share of their imports originating in the oil-exporting developing countries more than doubled between 1963 and 1982, from 7 per cent to 17 per cent. As with exports, there was also an upward trend in the share accounted for by intra-developing country trade, in this case occuring after 1978. These increases were reflected principally in a reduction of the share accounted for by developed countries, which fell by more than 10 percentage points in the 1970s.

68. As far as the Eastern trading area is concerned, there was a fall of over 10 percentage points in the share of intra-Eastern trading area imports in their total imports between 1963 and 1982. The corresponding increase in import shares was accounted for principally by developed countries and

oil-exporting developing countries. The share accounted for by non-oil developing countries showed a mildly upward trend from 1973 onwards.

69. In summary, it should be noted that the above discussion of changes in aggregate trade flows among various regions has, like the analysis to follow, been conducted in terms of shares calculated from current values which incorporate movements in relative prices. No adequate data exist for a constant price or volume analysis of trade flows. The most significant change in relative prices during the period under study resulted from the two oil price shocks in the 1970s. Up until the early 1970s, developed countries were increasing their shares of world trade, but after that the trend was reversed, with the most notable share increase being accounted for by the oil-exporting developing countries. It is noteworthy that with the exception of 1982 imports, the non-oil developing countries registered moderately increased shares of world imports and exports throughout the period beginning in the early 1970's, despite the effect of oil price rises on the distribution of shares.

70. In regard to the trade of developed and developing countries, a number of trends are apparent from the information contained in Tables 6 and 7. Intra-developed country imports and exports declined in relative importance during the 1970s, whereas the share of developed country imports and exports accounted for by developing countries generally increased in this period. The upward trend was basically attributable to the oil-exporting developing countries. On the other hand, the shares of developed countries in the imports and exports of all developing countries showed downward trends in the 1970s, having been stable or risen in the previous few years. This downward trend in the 1970s was reflected in the increasing significance for developing countries of trade among themselves. It is important, however, to view these trends in the context of the relative magnitudes of trade flows accounted for by different regional groupings; the developed countries still account for around two-thirds of world trade, compared to approximately 10 per cent for oil-exporting developing countries and 15 per cent for non-oil developing countries.

Exports of developed and developing countries by commodity structure and destination

71. The information on trade flows presented in Tables 6 and 7 is highly aggregated, and refers only to total imports and exports and to broad country groupings. This aggregation conceals important differences in the experiences of different countries, and an attempt has been made to identify some of these differences in Tables 8 and 9. Tables 8 and 9 contain detailed commodity breakdowns of the exports of various developed and developing countries for selected years between 1963 and 1982, and also show the destination of exports in terms of certain markets. The commodity disaggregation has been made in terms of twelve principal commodity groups and twenty-nine commodity sub-categories, which have been classified on the basis of SITC Rev.1, as shown in the note attached to the tables. The selection of the three years between 1963 and 1982 covered by the tables has depended on data availability. The markets of destination included in the tables are all developed countries, the United States, the European Communities, Japan, oil-exporting developing countries, non-oil developing countries and other countries. Included in the "other" category are exports not identified according to destination, exports to the Eastern trading area and exports to any other countries for which data exist on the UN Trade Data Tapes.

72. Table 8 is a summary of the exports of developed countries taken together, and separate tables are presented for Canada, the European Communities, EFTA, Japan and the United States. This selection of developed countries was designed to capture the bulk of developed country exports. Similarly, Table 9 is a summary table of the exports of non-oil developing countries, in this case covering forty-six countries for which comparable data were readily available. There are also separate country tables for seventeen developing countries, including Argentina, Brazil, Colombia, Egypt, India, Indonesia, Ivory Coast, Republic of Korea, Malaysia, Mexico, Nigeria, Pakistan, Peru, Philippines, Singapore and Thailand. This country selection was intended to provide as wide a sampling as possible and did not respond to any rigid criteria. Certain countries were included on the basis of their relative importance in world trade, provided their exports did not consist entirely or mainly of oil throughout the period under consideration. Secondly, an attempt was made to ensure that amongst the countries included there were examples of countries with differing characteristics in terms of the commodity distribution of their exports. Thirdly, additional countries were included in order to increase the geographical spread of the sample of countries.

73. With the exception of the left-hand quadrant of the first part of Tables 8 and 9, which contains value data, all figures represent percentages of the total exports of the country or countries covered by the relevant table in the relevant year. The first part of each table provides a summary of the geographical distribution of total exports, primary products, non-oil primary products and manufactures. In interpreting changes over time in export shares attributable to different markets, it should be noted that the percentage shares reflect both changes in export destinations and in the broad commodity composition of exports, as defined in the first part of the tables. In the second part of the tables, the same information is provided, but in a more disaggregated form.

74. Finally, reference has already been made above to the influence of relative price changes on shifts in the commodity distribution and direction of trade flows over time. In this connection it is worth noting that the prices of most commodities excluding oil have fallen relative to the prices of manufactures and oil, particularly in the 1980s. Since the end year for almost all the countries identified in the tables is 1980, 1981 or 1982, for many developing countries these relative price effects result in an overstatement of the degree of real export diversification out of primary products and into manufactures which has occured. Similarly, oil price movements in the 1970s exaggerate the importance of oil in the exports of some countries.

Developed Countries

75. There are three aspects of the commodity composition of the exports of the developed countries as a group (see Table 8) which are worthy of note. First, there is a high degree of diversification regarding the range of products exported. Second, manufactured goods account for the bulk of developed country exports. Thirdly, there has been very little change in the composition of exports as classified in Table 8 between 1963 and 1982, and none between 1970 and 1982.

76. Regarding the first point, it can be seen that at the level of commodity disaggregation used in Table 8, no one item accounted for more than 14 per cent of total exports in 1982. Table 8 also shows that manufactured items accounted for 72 per cent of total developed country exports in the same year. While manufactured goods were more important than primary products in the exports of all developed countries and country groupings presented separately in Table 8, there was considerable variation in their respective shares. In 1982, primary products accounted for only 3 per cent of Japanese exports at one extreme, and for 46 per cent of all Canadian exports at the other. The share of primary products in total exports in 1982 for both the EEC and EFTA was about one-fourth, and for the US slightly under one-third.

77. For developed countries as a group, the largest export item was engineering products, accounting for 42 per cent of total exports in 1982. The predominance of engineering products in total exports was especially pronounced in Japan (68 per cent in 1982), but this characteristic was shared by the other developed countries and country groups considered here, with shares in total exports exceeding one-third in all cases (47 per cent for the US in 1982).

78. Concerning movements in the composition of exports from 1963 to 1982, the most important observation to be made relates to the lack of change in the export structure of developed countries taken as a group. In 1963, manufactured goods accounted for 68 per cent of total exports. The corresponding figure in 1970 was 72 per cent, and it remained unchanged in 1982. The lack of change in the relative shares of manufactures and primary products in total exports was a common feature of the experiences of most of the developed countries considered here, with the notable exceptions of Canada and Japan. In Canada, the share of primary products in total exports fell considerably, from 66 per cent in 1963 to 46 per cent in 1982. In Japan, the already low share of primary products was reduced even further, from 9 per cent in 1963 to 3 per cent in 1982.

79. At lower levels of commodity aggregation, for the developed countries as a whole, a number of developments may be noted. From 1963 to 1982, there was a decline in the share of food and agricultural raw materials, while the share of fuels increased. Among manufactured exports, the share of engineering products increased by seven percentage points from 1963 to 1982, while that of textiles and clothing declined by three percentage points. These developments seem to be in line with common perceptions of changes in comparative advantage.

80. Among individual countries or groups of countries, Japan stands out in terms of the transformation of its export structure from 1963 to 1982. Not only have shifts occurred in export shares as between the broad categories of primary products and manufactures, but significant changes have taken place within the manufacturing sector itself. The share of engineering products in total exports increased from 35 per cent in 1963 to 68 per cent in 1982. Within this category, the share of motor vehicles in total exports increased particularly sharply, from 4 per cent to 21 per cent. The increase in the share of engineering products was accompanied by a decline in the share of textiles and clothing, which accounted for 21 per cent of total exports in 1963, and only 4 per cent in 1982. Finally, one other outstanding feature of Japan's export performance in the period under consideration is the dynamism of its export growth relative to other

developed countries. The exports of Japan expanded by a factor of twenty-five between 1963 and 1982 in current price terms, whereas the comparable figure for all other developed countries was ten.

81. Two observations have already been made in connection with the destination of developed country exports in the discussion on the data presented in Tables 6 and 7. These concern the relatively faster growth of traditional oil-exporting countries as export markets, and the continued predominance of developed country trade in total world trade. In addition, table 8 shows that market concentration with respect to intra-developed country trade is more pronounced for exports of primary products than for manufactured exports. In 1982, all developing countries accounted for 18 per cent of total developed country exports of primary products, compared with 28 per cent in the case of manufactured exports.

82. There are considerable differences among the developed countries or country groups with respect to the destination of their exports. While developed countries provide the largest market for the products of all the developed country exports for which data are presented in Table 8, the degree of market concentration varies significantly. The highest concentration is found in the destination of Canadian exports. In 1982, developed countries were the destination of 85 per cent of all Canadian exports, with the U.S. alone accounting for 68 per cent of the total. The share of all developing countries in Canada's exports in the same year was only 10 per cent. The geographic distribution of the exports of the EEC and EFTA in 1982 were very similar, with developed countries absorbing 77 per cent of all exports for both groups of countries. The EEC alone accounted for 52 per cent of all EFTA and EEC exports. The share of Japan in the exports of both groups was only 1 per cent, and all developing countries accounted for 13 per cent and 16 per cent of the exports of the EEC and EFTA, respectively. There is, then, considerable similarity between Canada, EFTA and the EEC with respect to the relative importance of developed and developing countries in total exports, although among the developed countries, the US was the major market for Canada and the EEC for the other two exporters.

83. The pattern of export distribution for the US and Japan is, however, quite different. In 1982, developed countries accounted for 49 per cent of all Japanese exports, and the US alone for 26 per cent. The share of traditional oil-exporting countries in the same year was 16 per cent and that of non-oil developing countries 29 per cent. Developing countries as a group are, therefore, almost as important a market for Japanese exports as are the developed countries, and non-oil developing countries provide a slightly bigger market than the United States. Exports of the United States show quite similar characteristics with respect to destination. In 1982, developed countries accounted for 57 per cent of all US exports, with the EEC accounting for 22 per cent and Japan for 10 per cent. The share of all developing countries in US exports in 1982 was 37 per cent, with a breakdown between oil-exporters and other developing countries of 10 per cent and 27 per cent respectively. Non-oil developing countries as a group, therefore, represented a more important market for US exports than the EEC in 1982.

84. In terms of changes in the destination of developed country exports between 1963 and 1982, the most significant development is the increase in the share accounted for by the oil-exporting developing countries and the corresponding reduction in the share of intra-developed country exports, which occured in the 1970s. Underlying this increased share of the traditional oil-exporters is some variation with respect to individual countries and country groups identified in Table 8. The largest increase was in Japanese exports, from 5 per cent in 1970 to 16 per cent in 1982. Increases of a similar magnitude occured in the cases of EFTA and Canada, but from lower bases. For the EEC and the United States, there was an approximate doubling of the oil-exporting country shares, to 9 per cent and 10 per cent respectively in 1982. The bulk of the increase in the share of oil-exporting developing countries in developed country exports represents growth in demand for manufactured goods. As far as the non-oil developing countries are concerned, their share in the exports of the United States, Canada and EFTA remained constant between 1963 and 1982. On the other hand, in the case of Japan and the EEC, their shares declined by 9 percentage points and 5 percentage points respectively over the same period. The overall effect of these changes was that non-oil developing countries maintained a more or less constant share of total developed country exports from 1970 to 1982, having registered a decline in their share of 3 percentage points between 1963 and 1970.

Developing countries

85. Although Table 9 contains data for only forty-six non-oil developing countries, it is unlikely that more complete country coverage would change significantly any observable trends in the growth, commodity composition or geographical distribution of exports. On the other hand, the inclusion of the oil-exporting developing countries would have made a considerable difference, at least to the commodity composition of exports. Two countries usually classified as oil-exporters, Indonesia (Table 9.7) and Nigeria (Table 9.12), were included in the individual country selection, and their export structures are illustrative of the importance of oil for certain countries.

86. It can be seen from Table 9 that in 1981, 26 per cent of the exports of the non-oil developing countries identified in the table were foodstuffs, 7 per cent were agricultural raw materials, 4 per cent were ores and other minerals, 12 per cent were fuels and 3 per cent were non-ferrous metals. The remainder of non-oil developing country exports in 1981 were manufactured goods, with engineering products accounting for 16 per cent, textiles and clothing for 12 per cent, semi-manufactures and other consumer goods for 5 per cent each, chemicals for 4 per cent, and iron and steel for 2 per cent.

87. In terms of changes in the commodity composition of non-oil developing country exports, the overwhelming impression given by Table 9 is that of diversification. While exports of non-oil primary products increased by a factor of five in current price terms between 1966 and 1981, manufactured exports increased over the same period by a factor of twenty. Although the latter expansion took place from a significantly lower base, in 1981 manufactured exports accounted for approximately 45 per cent of the total exports of the non-oil developing countries identified in Table 9. Most of the increase in the share of manufactures in total exports is accounted for by engineering products, in particular machinery and transport equipment, household appliances and office and telecommunications equipment. The shares accounted for by clothing and other consumer goods have also risen. The corresponding reductions in shares of non-oil developing country

exports between 1966 and 1981 are in food, raw materials, ores, other minerals and non-ferrous metals. The share of the exports of this group of countries accounted for by oil rose from 3 per cent in 1966 to 12 per cent in 1981.

88. The seventeen country tables attached to Table 9 emphasize some important differences that exist among developing countries in terms of their export structures and export performance. Whereas total exports for the forty-six non-oil developing countries identified in Table 9 increased by a factor of approximately nine from 1966 to 1981, for the individual countries identified the relevant figures ranged from five to over two hundred. The latter figure represents the export growth rate for the Republic of Korea, and is exceptional. The countries with export growth rates below the average for the forty-six Table 9 countries include Argentina, Egypt, India, Pakistan and Peru. Countries with export growth rates close to the average include Chile, Colombia, Ivory Coast, Malaysia, Mexico and the Philippines. The rates for the remaining countries, excluding the Republic of Korea, ranged from a multiple of fourteen for Brazil and Thailand, to nineteen for Singapore, and a little over thirty for Indonesia and Nigeria. There are several factors which explain these differences in the export growth rates of individual developing countries. Apart from the effects of the policy emphasis placed on trade expansion in different countries, there is obviously a close link between export growth and overall economic growth. Moreover, since the export growth rates are calculated from current prices, the commodity composition of exports also exerts an important influence in some instances. For the countries identified above, this is most apparent for Indonesia and Nigeria in the case of oil.

89. It was mentioned above that for the forty-six non-oil developing countries included in Table 9, manufactured goods accounted for approximately 45 per cent of total exports in 1981. Once again, the individual country tables reveal sharp differences among countries. India, the Republic of Korea, Pakistan and Singapore all rely on manufactures for 50 per cent or more of their merchandise export earnings. For Argentina, Brazil, Colombia, Malaysia, Mexico, the Philippines and Thailand, manufactures account for between 20 per cent and 40 per cent of total exports. For the remaining countries identified separately, including Chile, Egypt, Indonesia, Ivory Coast, Nigeria and Peru, less than 15 per cent of their exports comprise manufactured goods. It may be noted that these figures only represent rough orders of magnitude, since the same years have not been used in all the individual country tables. Also, the share of manufactures in total exports in the early 1980s is overstated inasmuch as primary product prices were uncharacteristically low during those years.

90. As far as exports other than manufactures are concerned, there is also wide variation among developing countries in relation to commodity composition. Argentina, Brazil, Colombia, India, Ivory Coast, the Republic of Korea, Pakistan and Thailand all rely heavily on food and agricultural raw materials in terms of their primary product exports. Indonesia and Nigeria rely mostly on oil, whereas Egypt, Malaysia, Mexico and Singapore rely on both food and agricultural raw materials as well as oil. Chile and the Philippines rely on food and agricultural raw materials, and on metals and minerals. Finally, Peru has the most diversified export structure of the countries included in the sample in terms of the broad distinction made above between manufactures, food and agricultural raw materials, oil, and metals and minerals.

91. A notable aspect of changes in the commodity composition of developing country exports during the period under consideration is that for all countries identified separately in Table 9, with the exception of Egypt and Nigeria, the share of manufactures in total exports has risen. For a number of countries, including Argentina, Brazil, Colombia, Malaysia, Peru, the Philippines and Thailand, the share of manufactures in total exports has increased very rapidly from a low share of some 5 per cent or less. In other cases, including India, the Republic of Korea, Pakistan and Singapore, manufactures already represented 25 per cent or more of total exports in 1963, and these shares increased to 50 per cent or over by the 1980's. The most rapid expansion in the share of manufactures in total exports in this group of countries occured in the Republic of Korea, where the relevant figures were 40 per cent in 1963 and 90 per cent in 1981. For the other countries identified in Table 9 which have not been mentioned, that is Chile, Indonesia, Ivory Coast and Mexico, the share of manufactures in total exports at least doubled, but with the exception of Mexico, remained below 10 per cent at the end of the period.

92. There are several differences among the individual countries identified in Table 9 with respect to diversification within the manufacturing sector. For a number of countries, the fastest growth has occured in engineering products. This is the case for Argentina, Brazil, Colombia, India, the Republic of Korea, Malaysia and Singapore. The only countries in Table 9 which have not registered an upward trend in the share of exports accounted for by engineering products over the last twenty years are Egypt, Indonesia and Nigeria. In the case of Mexico, there was a rapid rise in the share between 1963 and 1970 and then a decline.

93. The picture with respect to textiles and clothing is more mixed. The countries for which textiles and/or clothing represented an export share of 5 per cent or more during the period include Colombia, Egypt, India, the Republic of Korea, Pakistan, Peru, the Philippines, Singapore and Thailand. Whereas for countries like Colombia and Singapore the shares in total exports were only slightly over 5 per cent, in the case of India, the Republic of Korea and Pakistan the shares were 35 per cent or more at some stage during the period. Of the countries mentioned above, the textile and clothing share rose consistently in the case of Colombia, Peru, the Philippines and Thailand. For India and Singapore, the share attributable to textiles fell, while that of clothing rose, and for Egypt, the Republic of Korea and Pakistan, the situation was more mixed in respect of changes in export shares. As far as other manufactured products are concerned, including iron and steel, chemicals, semi-manufactures and other consumer goods, there was also a good deal of variation among countries. However, with some exceptions, there was a general increase in the relative importance of these items as sources of foreign exchange.

94. The commodities for which export shares were reduced as a result of increases in the shares of manufactured goods varied according to the resource base and export structure of individual developing countries. For most countries, except Chile, Malaysia, Pakistan and Thailand, export shares attributable to food fell during the period. With the exception of Chile and Colombia, the picture was the same for agricultural raw materials. For minerals and metals, export shares also fell for the most part, although there were a few exceptions such as Brazil. Finally, for oil the situation was reversed, with export shares attributable to this product increasing during the period in every country identified separately in Table 9 which exported oil except Colombia, India, the Republic of Korea and the Philippines. For the latter countries, excepting Colombia, oil in any case represented a very small share of total exports.

95. In the discussion above on the data presented in Tables 6 and 7, it was shown that there had been a number of changes in the destination of developing country exports, most notably in the 1970s. In particular, the share accounted for by the developed countries had fallen during the 1970s, with a corresponding rise in the share accounted for by intra-developing country trade. The export data for forty-six non-oil developing countries in Table 9 confirm these trends.

96. The disaggregated percentage share figures in Table 9 for primary products and manufactures, contained in the first portion of the table, show that while manufactured exports to developed countries accounted for 12 per cent of total exports in 1966, the share had risen to 27 per cent in 1981. The comparable figures for intra-developing country trade were 7 per cent in 1966 and 16 per cent in 1981. On the other hand, exports of primary products to developed countries accounted for 59 per cent of total exports in 1966 and only 31 per cent in 1981, whereas intra-developing country trade in primary products represented 13 per cent of the exports of the non-oil developing countries identified in Table 9 in 1966, and 16 per cent in 1981.

97. When the percentage share figures in the top portion of Table 9 are adjusted to exclude the effects of changes in the commodity composition of exports (these can be calculated from Table 9), it transpires that developed countries accounted for 58 per cent of non-oil developing country manufactured exports in 1966, and for 66 per cent and 59 per cent respectively in 1972 and 1981. The reduced share of manufactured exports accounted for by developed countries between 1972 and 1981 approximately reflects the increased share taken by the oil-exporting developing countries. With respect to market shares of non-oil developing country primary product exports, the developed country share was constant between 1966 and 1972, and than fell from 73 per cent to 59 per cent between 1972 and 1981. The bulk of the corresponding share adjustment between 1972 and 1981 can be found in increased intra-developing country trade.

98. The individual country tables attached to Table 9 reveal a number of differences between developing countries in regard to trends in the destination of exports during the period under consideration. These differences are the result of several factors, including variations in the way that the commodity composition of exports of different countries has changed. However, a notable general trend is that despite the growing importance for many developing countries of developed countries as markets for manufactured exports, for almost all the individually identified developing countries, the overall share of exports accounted for by developed countries fell between 1972 and the early 1980s. The only case were there was an increased share was that of Egypt, and there was little or no change in the case of Mexico, Nigeria and Singapore. This lower developed country share is in part a reflection of the reduced importance of primary products in the exports of most non-oil developing countries and the fact that the developed countries have in the past provided the main market for these products.

Least-developed countries

99. Table 10 shows the commodity structure of the exports of the least-developed countries for 1980 or the latest year available. The table illustrates two commonly made observations about the exports of the least-developed countries: the low share of manufactured goods in total

exports and the heavy dependence of most of the countries in this group on a single or very few commodities for export earnings.

100. Table 10 shows that, for the years indicated, manufactured exports accounted for less than 3 per cent of all exports in one-half of the least-developed countries and for less than 15 per cent in three-quarters of them. In the few countries with a higher share of manufactured goods in total exports, the bulk of such trade is concentrated on a single item, such as carpets from Afghanistan, jute fabrics from Bangladesh and diamonds from Botswana, the Central African Republic and Sierra Leone.

101. Regarding the composition of exports of primary products, over 30 per cent of exports were accounted for by food items in 28 countries, by agricultural raw materials in 9 countries, by fuels in 2 countries and by ores and metals in 3 countries, out of a total of thirty-six least-developed countries. Thus, exports of food and agricultural raw materials together accounted for the bulk of export earnings for most least-developed countries, as indicated by the fact that for eighteen countries the share of these items in total exports exceeded 75 per cent. The above picture shows the lack of diversification in the export structure of the least-developed countries and their continued reliance on single commodities, primarily agricultural, for their export earnings. The historically low non-oil primary commodity prices which prevailed in the early 1980s illustrate one aspect of the particular vulnerability of these countries to adverse changes in economic conditions.

Summary

102. Although the above analysis of the trade of developed and developing countries identified some changes in the geographical distribution of the total trade of certain countries and groups of countries, by far the most distinctive change to have occured in the last twenty years has been with respect to the commodity composition of the exports of many developing countries. While there was some evidence of similar changes in Canada and Japan among the developed countries, most developing countries, with the exception of the traditional oil-exporters and the least-developed countries, have experienced a fundamental transformation of their export structures. These changes have taken place both with respect to the broad categories of primary products and manufactures, and also in many cases within these categories.

103. The diversification of export structures in developing countries is a direct reflection of changes in the production patterns of these countries. Investment growth in most developing countries has led to the emergence of industrial sectors geared to meeting not only the requirements of a growing domestic market, but also demand for consumer goods and in some cases more standardized industrial inputs in the market of other countries, both developed and developing. On the other hand, productivity increases have not benefitted the agricultural sectors of developing countries to the same degree. Despite the fact that some countries have succeeded in expanding production and exports of certain commercial crops such as sugar, soyabeans and cereals, in other countries the failure of cereal production to keep pace with domestic demand has led to significant levels of imports of foodstuffs. As far as tropical agricultural products are concerned, these continue to be an important source of foreign exchange earnings for some countries, although recently these earnings have been adversely affected by depressed demand in the major importing markets.

104. There are two important points that should be made in regard to the growth in manufactured exports from developing countries. Firstly, this growth took place from a generally low base and therefore the share of developing country manufactured exports in world exports of manufactures remains very modest. This is illustrated in Table 11, where the shares of manufactured exports of selected countries are expressed as a percentage of world manufactured exports. Of the countries shown in Table 11, the Republic of Korea had the highest share in 1980, amounting to only 1.4 per cent. Thus, while over 80 per cent of the Republic of Korea's exports in 1980 were manufactured goods, this represented less than 2 per cent of world trade in these products. The manufactured exports of all developing countries accounted for less than 10 per cent of world trade in manufactures in 1980.

105. If developing country manufactured exports are disaggregated into more narrowly defined product groups, the picture changes somewhat, with a greater concentration of their exports in the total trade of particular items. The most frequently quoted and best example of this is the textiles and clothing sector; according to the same statistical source as for Table 11, in 1980 developing countries accounted for about 28 per cent of world trade in textile fibres, textiles and clothing, a share which rose from 22 per cent in 1970. Further disaggregation within the textiles and clothing sector would in certain cases show even higher and more rapidly growing shares. It has often been argued that it is the rapidity of the expansion of exports of particular products more than the level which has resulted in protectionist pressures in developed countries. It has also been argued that while much trade growth among developed countries has been intra-industry trade, that between developed and developing countries has tended to be inter-industry trade. This has meant that developed countries have faced higher adjustment costs to increased exports from developing than from developed countries. Whatever the validity of these propositions, however, it remains the case that a failure to adjust to competitive imports implies foregone income growth in the longer term. In effect, there may be a positive correlation between the level of adjustment costs and the economic gains to be derived from specialization through trade.

106. The second point to be made about the expansion of developing country exports of manufactured goods is that it has occured in the context of a general expansion of trade. This is illustrated clearly in Table 12, which summarizes trade flows between developed and developing countries in 1970, 1973 and 1982. What this table shows in particular is that the growth of exports of manufactures from developing to developed countries has been accompanied by vigorous growth in the reverse flow, that is, of developed country manufactured exports to developing countries. This applies both to the traditional oil-exporters and the non-oil developing countries, both of which have continued to run trade deficits with developed countries in manufactured goods. Between 1970 and 1982, the deficit of the non-oil developing countries in trade in manufactures with the developed countries increased from US$16 billion to US$71 billion.

107. Finally, a more general point about trade between developed and developing countries concerns the role that trade can play in reducing and shortening the adverse effects of economic downturns in particular countries. This is demonstrated by the data in Table 13, which shows the geographical distribution of the annual increment of trade between 1963 and 1982. In other words, the actual increase in trade which has occured in a given year represents 100 per cent, and the contributions to trade growth of the identified country groupings, when added, amount to one hundred.

Figures are shown in the table for total world exports (representing total imports by each of the regional groupings) and for the exports of developed, and non-oil and oil-exporting developing countries.

108. Table 13 shows the relative dynamism of various trade flows as well as the relative impact of particular developments on the different country groupings. While the table confirms observations made earlier about the growing participation of developing countries in international trade, what is of particular interest here is the behaviour of non-oil developing country imports from developed countries in the periods immediately following the two rapid oil price rises which occured in the 1970s. Both in 1974 and 1975, and again in 1980 and 1981, import demand in developing countries was instrumental in mitigating the effects of oil price rises on economic activity in developed countries.

### 3. The current financial and debt situation

109. This section addresses in some detail one of the most pressing problems facing a number of developing countries and the international financial sector in recent years. Several of the issues covered here have already been referred to in the balance-of-payments analysis in Section I. It should be noted that although much of the discussion on debt which follows concentrates on non-oil developing countries, many of the issues involved are also pertinent to some developing countries usually classified as oil-exporters, including for example, Indonesia, Nigeria and Venezuela. An examination of the particular situation of the more heavily indebted developing countries should not lead to it being overlooked that other developing countries also depend on market access for their exports and their ability to secure investment and other financial flows for managing their balance-of-payments and achieving economic growth.

110. It was observed in Section I that it is important to view the evolution of the balance of payments and debt situation facing certain developing countries in an appropriate long-term context. Much of the discussion below focuses on the role played by various factors, including the global downturn in demand, higher interest rates, the appreciation of the US dollar, the relative scarcity of capital, and certain policy factors, in worsening the external financial position of a number of developing countries. However, this does not obscure the fact that it is intrinsic to the development process itself that most developing countries may be expected to run current account deficits and rely on official and private capital inflows over a certain period of their development.

111. The increasing international indebtedness of developing countries in general, and a small number of the relatively advanced ones among them, in particular, has been subject to a great deal of attention in the last few years. Fears of imminent disruption in the international financial system were put to rest as a result of sizeable reschedulings of the debts of some of the major borrowers. However, such temporary relief cannot provide a long-term remedy to the problems engendered by unmanageably large debt-servicing requirements, especially within the context of the present economic and trading environment.

112. The following paragraphs will first provide some indicators of the magnitude of international indebtedness and of debt-servicing requirements. This will be followed by a discussion of the developments in the past ten years that gave rise to the accumulation of international debt on such a

large scale. The problems that have emerged as a result of increased indebtedness in a period of significant adverse economic changes will then be considered.

113. It is very difficult to obtain a detailed and comprehensive picture of the international debt situation with existing statistics. While figures on public and publicly guaranteed debt are relatively easy to compile, it is difficult to obtain reliable statistics on debt which is owed by the private sector but is guaranteed in neither the debtor nor the creditor countries. Similarly, there is no comprehensive reporting of developing country debt with original maturities of less than one year (i.e. short-term debt). As a result, figures on short-term debt found in Tables 14 and 16 are estimates of the International Monetary Fund, derived from information provided by Central Banks and the Bank for International Settlements.

114. Table 14 provides a breakdown of the total outstanding debt of non-oil developing countries in the period 1975-82 by length of maturity as well as by type of creditor. It also provides information on debt-service payments in the same period and includes three ratios intended to provide some indication of the relative magnitude of total debt outstanding and debt-servicing requirements.

115. The total, including short-term, outstanding debt of the non-oil developing countries as a group increased at an annual average rate of almost 19 per cent from US$130.1 billion in 1973 to US$612.4 billion in 1982. Estimates for 1983 indicate that total debt has exceeded US$650 billion. During the 1973-82 period, the growth in the value of debt service payments averaged 22 per cent, with interest payments registering even higher growth, at an annual average rate of 27 per cent. In fact, by 1980 interest payments were greater than repayments of principle. The more than doubling of interest payments from 1979 to 1982 reflects in large part high international interest rates prevailing particularly in 1980-82.

116. The various ratios shown in Table 14 all point to the increasing gravity of the debt situation. The debt service ratio, the ratio of external debt to GDP and to exports of goods and services all reached record levels in 1982. Yearly changes in these ratios reflect not only changes in the size of debt, and in international interest rates which affect interest payments, but they also incorporate annual movements in exports of goods and services or GDP.

117. Since 1982, scheduled debt service payments of the developing countries have increased at a slower pace, largely as a result of a decline in international interest rates from their historically high levels in 1980-81. Apart from the lower interest cost, debt restructurings and the postponement of scheduled payments, primarily since late 1982, have also helped reduce the growth in debt service payments. Estimates for 1983 suggest that debt service payments actually fell in 1983, largely because of various restructuring arrangements. The debt-service ratio is also estimated to have fallen (to about 19 per cent for the non-oil developing countries in 1983), due to the recovery in exports as well as to the debt restructurings.

118. One of the important features of the debt situation is the concentration of external debt in a relatively few number of countries. Table 15 in the appendix shows that four countries accounted for 40 per cent of the total external debt and over 50 per cent of the

short-term debt held by all non-oil developing countries. The corresponding shares of the largest eight non-oil borrowers were 54 per cent and 70 per cent.

119. The above statistics emphasize the point that the debt crisis has not affected all developing countries to the same degree. A number of developing countries have been able to adjust to external developments without significant resort to external financing of the debt-creating type. Other developing countries did borrow from international capital markets, but the servicing of this debt has not been onerous in terms of policy choices or economic performance. A number of the least-developed countries, on the other hand, have met their financing needs through bilateral or multilateral concessional flows and, in any case, have had little access to international capital markets.

120. While problems associated with indebtedness might be seen in a country-specific context, imposing real constraints on the economic growth of heavily indebted countries, the debt crisis as such encompasses a more generalized concern. The debt crisis has not only impaired the flexibility of the financial system by creating uncertainty, but it has also had an impact on trade flows. Countries which are currently not seeking international capital inflows but might do so in the future are potentially affected by conditions in international financial markets resulting from the debt crisis, both in terms of attitudes towards credit risks and the availability of capital. At the same time, austerity measures adopted by the indebted countries, including the curtailment of imports, have implications for the level and direction of the exports of these countries' trading partners.

121. Table 16 provides an indication of the evolution of external indebtedness for the eight countries included in Table 15 as well as for India and Indonesia. The figures in Table 16 do not include debt with an original maturity of less than one year and as a result understate external indebtedness. As Table 15 shows, short-term debt has reached significant levels for a number of these countries, and approximately one-fifth of the total debt of non-oil developing countries in 1982 bore maturities of less than one year. The debt-service ratio and the ratio of external debt to exports of goods and services shown in Table 16 are both calculated on the basis of public or publicly guaranteed long-term debt only, and as a result also understate the level of indebtedness of these countries, sometimes by a considerable amount.

122. A second important aspect of the debt situation is the way the structure of developing country debt has changed over time. The share of external debt accounted for by debt incurred from private sources, with shorter maturities and bearing variable interest rates, has increased consistently from 1973 to 1981. There was, however, a reversal in this trend in 1982. The share of short-term debt in the total outstanding debt of all non-oil developing countries, calculated from figures shown in Table 14, increased from 14.1 per cent in 1973 to 18.4 per cent in 1981, with corresponding declines in the share of long-term debt. Similarly, the share of private creditors in total long-term debt increased from 46.7 per cent in 1973 to 50.5 per cent in 1981, while the share of official creditors declined from 39.2 per cent to 31.1 per cent in the same period. Assuming that much of short-term debt has been incurred from private sources, the share of private creditors in total (long and short-term) non-oil developing country outstanding debt exceeded 65 per cent in 1981.

123. The increasing importance of private creditors and short-term obligations in total external debt has also significantly increased the proportion of debt subject to variable interest rates. The OECD estimates that in 1981 approximately 50 per cent of non-OPEC developing country liabilities bore floating interest rates. These developments have clearly made developing country debtors more vulnerable to changes in international interest rates, as well as to the behaviour of private commercial banks.

124. Table 17 summarizes the developments in the patterns of current account financing for non-oil developing countries in the period 1973-82.[1] Many of the changes in the structure of external debt already discussed are clearly discernible from this table. In particular, a comparison of the distribution of financing flows between the periods 1974-77 and 1978-80 indicates that the share of the current account deficit (plus changes in reserves) financed from short-term flows increased from about 7 per cent to 16 per cent, with corresponding reductions in non-debt creating and long-term flows.

125. Table 17 also shows changes in official reserves. Net reserves increased from 1976 to 1981, after having declined in 1975. The increases were more marked in 1976-79 than in 1980 and 1981, suggesting that some debt incurred in those earlier years was used for the purpose of building up reserves. By 1982, however, not only had the current account deficit fallen following its upward trend of the previous five years, but the deficit was partly financed from reserves. The latter development was partly a result of the contraction in other forms of financing, most notably lending by international commercial banks. The scarcity of private capital in 1982 also gave rise to a shift toward a larger share of official financing in the net aggregate of external borrowing and a smaller share covered by private sources of credit. This mainly resulted from a reduction in total borrowing in 1982, with an actual outflow of short-term capital, rather than from an increase in borrowing from official sources.

126. The reasons behind the accumulation of external debt by the developing countries are familiar and they have already been alluded to in the discussion on the trade and payments situation in Section I. The deterioration in the trade balance of most developing countries in the aftermath of the two rounds of oil price increases and the subsequent need to service increasingly larger debt obligations have given rise to historically high levels of external indebtedness in recent years.

127. The large current account deficits of the developing countries in 1974 and 1975 were financed mainly through increases in the inflows of both long-term capital from private sources and of short-term capital. This external debt was incurred at a time of plentiful capital at the disposal of international banks through access to the excess funds of certain oil-exporting countries. At the same time, the conditions of high liquidity in international capital markets coincided with the rapid commodity price increases in the 1972-74 period. Consequently, the effective amortization of pre-1973 debt through the inflation of export prices, in conjunction with positive expectations for future growth and export earnings for the developing countries, opened up a wide scope for

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[1] The current account figures reproduced in Table 17 do not correspond exactly to those provided in Table 1 because of differences in the country coverage of the statistics employed. These differences were noted in the footnote to Paragraph 29.

new borrowing by those countries. Most of this debt was incurred at low interest rates, with generally soft conditions on maturity and grace periods.

128. During the subsequent years of economic recovery in 1976-78, developing countries continued to borrow both to finance their now smaller current account deficits and to build up reserves. The second round of oil price increases took place against this background of greater external indebtedness. The external financing needs of developing countries in 1979-81 were magnified not only by the higher trade deficits, but also by the larger debt servicing requirements in this period.

129. Developments in the international economic situation in the post-1980 period exacerbated the already precarious situation that most developing countries faced in the late 1970's. The combined impact of (a) a decline in export earnings, (b) high international interest rates, (c) significant appreciation of the US dollar and, (d) contraction in the flows of capital available from international commercial banks were particularly adverse for the external payments and growth prospects of developing countries, including some of the oil-exporters among them.

130. The significant reduction in the export earnings of the developing countries was largely a result of the severest recession the international economy has undergone since the 1930's. The world-wide decline in aggregate demand depressed commodity prices to their lowest levels ever in the post-war period, with severe implications for the terms of trade of developing countries. The combined effect of depressed prices and reductions in the volume of exports was a decline in export earnings for the group of developing countries as a whole. At the same time difficulties in access to foreign markets for certain developing country products magnified the effects of the cyclical economic downturn, resulting in losses of potential export earnings.

131. The changes in the structure of the external debt of the developing countries were already discussed above. The rapid rise in commercial bank loans, particularly during 1980 and 1981, sharply increased the proportion of the external debt subject to market interest rates. This development rendered the developing countries particularly vulnerable to the exceptionally high international interest rates prevailing during this period. Moreover, the prevalence of variable interest rates on a large portion of borrowings from private banks meant that the high interest rates also became applicable to a large part of the outstanding debt, rather than just to new loans. The average interest rate on all outstanding debt, including those subject to concessional rates, rose from 6 per cent during the period 1976-79 to 7.5 per cent in 1980 and 10.75 per cent in 1981.[1]

132. Table 16 also provides an indication of the average rate of interest prevailing on new public debt commitments for selected developing countries. While the exclusion of private non-guaranteed debt from the calculations probably understates the interest rate prevailing on total new debt commitments, the figures show the unusually high interest rates new debt commitments were subject to in 1980 and 1981. The significant variation among countries in this respect is likely to be a function of the predominance of private creditors in some countries and official creditors, which provide varying degrees of concessional loans, in others. The prevalence of high international interest rates in 1980 and 1981 caused a

[1] IMF, World Economic Outlook, 1983.

steep rise in interest payments in those years, causing further deterioration in the external payments situation of the developing countries.

133. Another factor which contributed to the financing burden of developing countries was the appreciation of the US dollar since 1980. Given the high proportion of debt denominated in US dollars, the appreciation of that currency compounded the problems of debt-servicing for developing countries whose export prices, while often expressed and invoiced in US dollars, are effectively determined in world markets.

134. The international commercial banking system played a major role in financing the upsurge in current account deficits in 1980 and 1981, which resulted from the reduction in export earnings and the increase in service payments. By 1982, however, increasing agitation among commercial banks about the degree of their exposure in developing countries and about the growth prospects in these countries led them to question the soundness of continuing their lending operations at the same scale. This policy change on the part of commercial banks along with the contraction in the sources of funds available to them translated into significantly lower levels of lending in 1982 than had been extended in previous years. It is estimated that outstanding private bank credit to the non-oil developing countries in 1982 increased by only 7-8 per cent compared with an increase of 21 per cent in 1981 and an annual average increase of 25 per cent during the previous six years.[1]

135. The response of a large number of developing countries to the difficulties engendered by increased debt servicing requirements within the context of adverse international economic conditions has been in the form of curtailing imports. Imports of the non-oil developing countries declined by 7.7 per cent in volume and by nearly 10 per cent in value in 1982. Such drastic cuts in imports could not be undertaken without severely damaging domestic productive capacity and curtailing growth. Considering that a number of developing countries had already restricted imports of consumption goods, further reductions in the import bill necessarily affected essential industrial inputs, thus leading to very low levels of productive capacity utilization.

136. Despite a certain inevitability at the time, it is difficult to see how this response can be sustained if the debt problem is to be dealt with effectively. Not only do restrictions on imports hamper domestic growth, but they also have adverse consequences for export capacity. Moreover, even if the financing were available, it is doubtful that the assumption of even greater debt obligations would provide a viable long-term solution to the present problem. While there may be some possibilities for certain countries to increase non-debt creating inflows of capital, the prospects for greater official development assistance do not seem to be particularly encouraging. As far as direct foreign investment is concerned, it will be no easy task for most developing countries to attract significantly larger amounts of equity capital under existing conditions. Similarly, there are limits to which earnings from migrant labour can continue to expand for those countries which rely on this source of foreign exchange.

137. Whatever the possibilities for increases in non-debt creating financial flows in the short to medium-term, it seems clear that a

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[1] IMF, World Economic Outlook, 1983.

long-term solution to the debt problem has to be found in the trading system. While the maintenance of adequate financial flows in the short-term is necessary to provide for at least the minimum import capacity necessary for the stable functioning and continued growth of the debtor economies, in the longer term increased production and trade provide the only viable strategy for dealing with external indebtedness. In this context, it is important to note that an emphasis on expanding exports while maintaining restrictions on imports is likely to be counter-productive for the economic well-being of the countries concerned. The interaction between the maintenance of adequate import flows and the expansion of the export sector cannot be ignored.

138. An effective solution of the debt problem in the long-term depends on economic policies adopted both by the debtor countries themselves and by their trading partners. Improved access to markets abroad for the products of developing countries is an important condition for the expansion of export earnings by these countries. This requires a willingness on the part of trading partners to refrain from resorting to protectionist measures and to allow patterns of production and the composition of imports to adjust to changing external circumstances. On the other hand, appropriate adjustment policies followed by indebted developing countries in relation to exchange rates, the transfer of resources to the export sectors of the economy and so on, have a strong influence on their ability to expand exports.

## III. POSSIBILITIES IN GATT FOR FACILITATING AN INCREASE IN TRADE

### 1. Past trade liberalization efforts in GATT and developing countries

First Round

139. The first round of GATT tariff negotiations was the original session at Geneva in 1947 where the General Agreement was adopted. The procedures for the 1947 Geneva negotiations provided for selective product-by-product negotiations resulting in a concession to lower or bind tariffs, a base date for tariff rates and the principal supplier rule whereby participants would be expected to consider the granting of tariff concessions only on products on which the other participants were or were likely to be principal suppliers. Eleven developing countries were among the twenty-three original signatories of the General Agreement.[1] Schedules of tariff concessions were negotiated by all the original signatories. The negotiated schedules show that the concessions covered a broad range of products. Tariff concessions consisted of the binding of current rates, tariff reductions and in some cases duty-free treatment. The product coverage of the developing countries' schedules of concessions varied substantially from country to country. While one schedule covered several hundred items, other schedules contained less than forty items each. Ad valorem tariff rates varied between duty free in selected cases and 50 per cent. Most bound tariff rates consisted of specific duties. Some schedules indicated that surcharges could be applied, others noted that import controls would apply to duty-free items. There is no country-by-country data on the trade coverage of these schedules. It has been estimated that the schedules of all contracting parties covered products whose trade in 1938 prices was worth approximately US$10 billion.

140. Soon thereafter, in 1949, one developing country which had just acquired independence became a contracting party pursuant to Article XXVI:5 and the respective schedule included the concessions negotiated on behalf of that customs territory by the former metropolitan government.

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[1] The original contracting parties were: Australia (Schedule I), Belgium-Luxembourg-Netherlands (Schedule II), Brazil (Schedule III), Burma (Schedule IV), Canada (Schedule V), China (Schedule VIII), Cuba (Schedule IX), Czechoslovakia (Schedule X), France (Schedule XI), India (Schedule XII), New Zealand (Schedule XIII), Norway (Schedule XIV), Pakistan (Schedule XV), South Africa (Schedule XVIII), Sri Lanka (Schedule VI), Syria-Lebanon (Schedule XVII), United Kingdom (Schedule XIX), United States (Schedule XX), Southern Rhodesia (Schedule XVI). Chile (Schedule VII) became a contracting party under a Special Protocol of September 1948.

Second and Third Rounds

141. The second and third tariff rounds held in Annecy in 1949[1] and Torquay in 1950[2] were principally concerned with negotiations for the accession of a number of countries to the General Agreement. Nine of the sixteen countries which negotiated accession in the context of these rounds were developing countries.[3]

142. The Annecy schedules reflect both additional concessions by contracting parties,[4] including several developing contracting parties,[5] as well as the schedules of the acceding governments. The coverage of the developing countries' schedules varied greatly from some fifty items in one case to a few hundred items in others. Ad valorem duty rates ranged between duty-free and 120 per cent. One of these schedules noted the existence of across-the-board surtaxes, another schedule listed specific duties with minimum ad valorem duty rates. A large number of concessions related to specific duties.

143. The Torquay schedules contain modifications to the schedules of contracting parties, which in the case of developing countries, reflect both new concessions and the withdrawal of concessions, as well as the schedules of the acceding governments. The product coverage of the schedules of acceding developing countries varied between some thirty items and a few hundred items with ad valorem duty rates ranging from duty-free to 80 per cent, but most duty rates were established on specific bases. Ad valorem equivalences of specific duties are not available.

Amendments

144. At the ninth session in 1954-55, the CONTRACTING PARTIES adopted a Final Act which contained Protocols amending the Preamble, Parts I, II and III of the General Agreement, organizational amendments to the General Agreement and the Agreement on the Organization for Trade Cooperation. These instruments, which were accepted by developing contracting parties, included, inter alia, a new Article XXVIII bis concerning tariff negotiations which recognizes in paragraph 3(b) that developing countries need a more flexible use of tariff protection and have special needs to maintain tariffs for revenue purposes.[6]

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[1] I BISD 79.

[2] I BISD 86.

[3] Dominican Republic (Schedule XXIII), Haiti (Schedule XXVI), Liberia (Schedule XXVIII), Nicaragua (Schedule XXIX), Uruguay (Schedule XXXI), Peru (Schedule XXXV) and Turkey (Schedule XXXVII). The Republic of Korea (Schedule XXXIV) and the Philippines (Schedule XXXVI) did not sign the Torquay Protocol. Other governments which negotiated accession during the Annecy and Torquay Rounds were: Denmark (Schedule XXII), Finland (Schedule XXIV), Greece (Schedule XXV), Italy (Schedule XXVII), Sweden (Schedule XXX), Austria (Schedule XXXII) and Germany, F.R. (Schedule XXXIII).

[4] Australia, Belgium-Luxembourg-Netherlands, Canada, China, Czechoslovakia, France, New Zealand, Norway, South Africa, United Kingdom, United States.

[5] Brazil, Chile, Cuba, India, Pakistan, Sri Lanka and Syro-Lebanese Customs Union.

[6] The Protocol Amending the Preamble and Parts II and III entered into force in 1957. The Protocol amending Part I and Articles XXIX and XXX was abandoned (15 BISD 65). The other instruments did not enter into force.

Fourth Round

145. The fourth round of tariff negotiations was held at Geneva in 1956. Prior to this round, the CONTRACTING PARTIES had given consideration to a proposal providing for lowering the weighted incidence of tariffs by 10 per cent in each of three successive years. The proposal contemplated special treatment for developing countries and countries in the process of industrial development.[1] The negotiating procedures for the fourth round were similar to those used in previous rounds. The rules for this round provided for negotiations on a selective product-by-product basis, a base date for the negotiations, the use of the principal supplier rule and the exchange of consolidated lists of offers.[2] The concessions exchanged are reflected in the Sixth Protocol of Supplementary Concessions to the General Agreement.[3]

Dillon Round

146. The 1960-61 Tariff Conference (the Dillon Round), also held in Geneva, followed the traditional rules providing for selective product-by-product negotiations and had provisions on negotiations for the accession of Cambodia, Israel and Tunisia, as well as for negotiations on the Common Tariff of the European Economic Community under Article XXIV:6.[4] Non-contracting parties participated in these negotiations only when invited to negotiate with a view to acceding to the General Agreement.

147. At the Fourteenth Session, the CONTRACTING PARTIES had taken up the question of participation of developing countries in GATT tariff negotiations. Developing country governments had expressed the difficulties which they faced in tariff negotiations conducted on the orthodox pattern and had submitted certain proposals which contemplated, inter alia, the inclusion of internal taxes in the negotiating rules, that contracting parties be allowed to negotiate jointly on products of common concern, the evaluation of concessions based on the importance of the commodity in the exporting country, the acceptance of ceiling bindings, commitments with respect to the average level of duties under a tariff heading or commodity group, and the possibility of admitting unilateral concessions.[5]

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[1] 1 BISD 67-85

[2] 4 BISD 74-81

[3] The Sixth Supplementary Protocol reproduces the schedules of the following negotiating contracting parties: Australia, Belgium-Luxembourg-Netherlands, Canada, Chile, Cuba, France, Norway, United Kingdom, United States, Denmark, Dominican Republic, Finland, Haiti, Italy, Sweden, Austria, Germany, F.R., Peru, Turkey, Japan.

[4] 8 BISD 114-121

[5] 8 BISD 108-111

148. Notwithstanding certain reservations, the rules and proceedings for the Dillon Round negotiations covered tariffs and other charges on imports and certain specified non-tariff barriers including internal taxes, to the extent that contracting parties would be able to negotiate mutually satisfactory concessions. An offer by the European Economic Community to negotiate a 20 per cent linear tariff reduction with exceptions was not successful as only the United Kingdom was able to match such an offer. The schedules of concessions of a number of developed and developing contacting parties are annexed to the Protocol embodying the results of the 1960-61 Tariff Conference.[1] While some of the schedules of developing contracting parties include a small number of items, others had a broad ranging product coverage. Ad valorem duty rates ranged between duty-free and 50 per cent. A large number of duties were established on a specific rate basis. Three governments negotiated accession to the General Agreement in the context of the Dillon Round. Their schedules of concessions are annexed to the respective Protocols of Accession.[2]

149. The Conclusions adopted at the 1961 Ministerial Meeting stated, inter alia, that in view of the stage of economic development of developing countries, a more flexible attitude should be taken with respect to the degree of reciprocity to be expected from these countries.[3] Having regard to the proposals submitted by a group of developing contracting parties with respect to their trade problems, the 1961 Ministerial Declaration on the "Promotion of Trade of less Developed Countries" listed a number of principles to be observed and facts to be considered regarding tariffs and non-tariff measures affecting access to markets. These refer to quantitative restrictions, tariffs, revenue duties, state-trading, preferences, subsidies and the disposal of commodity surpluses.[4]

150. Concurrently with this round of negotiations, a large number of developing countries which had just acquired independence became contracting parties to the General Agreement pursuant to Article XXVI:5.[5] In the light of the obligations assumed by the former metropolitan governments, only some of these countries have schedules of tariff concessions.[6]

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[1] Belgium-Luxembourg-Netherlands, Canada, Chile, Czechoslovakia, France, India, New Zealand, Norway, Pakistan, United Kingdom, United States, Denmark, Finland, Haiti, Italy, Sweden, Austria, Germany F.R., Peru, Japan, Nigeria, European Economic Community and Switzerland.

[2] Israel (Schedule XLII) 10 BISD11. Cambodia (Schedule XLI) 11 BISD 43. Cambodia has not accepted the Protocol of Accession. Portugal (Schedule XLIV) 10 BISD11.

[3] 10 BISD 26.

[4] 10 BISD 28-32.

[5] Nigeria, Sierra Leone, Tanzania, Cameroon, Upper Volta, Central African Republic, Congo, Gabon, Kuwait, Chad, Cyprus, Benin, Senegal, Madagascar, Mauritania, Niger, Ivory Coast and Togo.

[6] Over the years several other newly independent countries have become contracting parties pursuant to the provisions of Article XXVI:5 of the General Agreement.

Kennedy Round

151. The GATT Trade Conference of 1964-67 (the Kennedy Round) was launched at a Ministerial meeting held in May 1963. The conclusions adopted by the Ministers, inter alia, list measures for the expansion of trade of developing countries as a means of furthering their economic development. The Programme of Action which was adopted subject to certain understandings contained undertakings by the industrialized countries with regard to a standstill provision, elimination of quantitative restrictions, duty-free entry for tropical products, elimination of tariffs on primary products, reduction and elimination of tariff barriers to exports of semi-processed and processed products from developing countries, progressive reduction of internal fiscal charges and revenue duties, reporting procedures and other measures. In this respect the Ministers of developing countries emphasized that the Programme of Action fell far short of the minimum conditions necessary to enable the developing countries to make their full contribution to the expansion of international commerce and represented a practical compromise between the difficulties stated by some industrialized countries and their responsibilities under the GATT. The Ministerial conclusions also recognized the need for an adequate legal and institutional framework to enable the CONTRACTING PARTIES to discharge their responsibilities in connection with the work of expanding the trade of developing countries.[1]

152. A Resolution adopted at the 1963 Ministerial meeting established the framework for the negotiations. The Kennedy Round differed from previous GATT negotiations in particular because the tariff negotiations among the industrialized countries were based on a linear offer, and provided for specific attention to certain non-tariff barriers to trade, problems in the agricultural sector and the trading problems of developing countries. The principles on which the Kennedy Round was based, which were laid down at the Ministerial meeting of May 1963, were to a large extent the same as those that had governed previous negotiations. The Ministers agreed that the negotiations should be conducted "on a most-favoured-nation basis and on the principle of reciprocity". However, the Ministers laid down as a basic principle for the negotiations "that the developed countries cannot expect to receive reciprocity from the less developed countries" and that the contribution of these countries to the overall objective of trade liberalization should be considered "in the light of the trade and development needs of these countries".[2-3]

153. In the first stages of the negotiations, it was agreed that developing countries should indicate products of special interest to them so that developed countries could take account of these when making up their offers. An examination of products of export interest to developing countries which had been included in the exceptions lists tabled by the main developed countries took place in the Sub-Committee on the

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[1] 12 BISD 36-49

[2] Two developing countries accepted this paragraph on the understanding that the phrase "development and trade needs" covered the requirements of the current financial situation.

[3] 12 BISD 47-49 and 13 BISD 109-112.

Participation of the Less-Developed Countries. The Sub-Committee drew up a plan permitting developing countries to become full participants in the negotiations when they tabled "a statement of the offers which they would make as a contribution to the objectives of the trade negotiations", rather than the list of precise offers on individual products which was required of other participants in the negotiations upon presenting statements of contribution. The plan also provided that other participants might put forward suggestions as to the contribution that developing countries might make, taking into account the principle that any contribution by these countries would have to be consistent with their "trade and development needs".

154. The final stages of the negotiations between developed and developing countries took place mainly bilaterally, on the basis of specific requests by developing countries relating to individual products. At the multilateral level, the Trade Negotiations Committee and the Sub-Committee on the Participation of the Less-Developed Countries continued to supervise and coordinate the negotiations.

155. In the context of the Kennedy Round, several countries, including three developing countries, negotiated their accession to the General Agreement[1]. The respective schedules of concessions of the acceding developing countries, which appear in the Legal Instruments embodying the results of the 1964-67 Trade Conference, contain in one case fewer than fifteen and in the others more than three hundred tariff concessions with ad valorem duties ranging between duty-free and 140 per cent. The Legal Instruments also contain additions to the schedules of concessions of other contracting parties,[2] including eleven developing contracting parties.[3] The number of tariff concessions granted by individual developing contracting parties varied between fewer than twenty and more than one hundred tariff items, with ad valorem duty bindings ranging between duty-free and 90 per cent.

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[1] Argentina (Schedule LXIV), Republic of Korea (Schedule LX) and Yugoslavia (Schedule LVII). Other governments which negotiated accession during the Kennedy Round negotiations were Poland (Schedule LXV), Ireland (Schedule LXI) and Iceland (Schedule LXII).

[2] Australia, Belgium-Luxembourg-Netherlands, Canada, Czechoslovakia, France, New Zealand, Norway, South Africa, Denmark, Finland, Italy, Sweden, Austria, Germany F.R., United Kingdom, United States, Japan, European Communities, Portugal, Switzerland.

[3] Brazil, Chile, India, Dominican Republic, Peru, Turkey, Israel, Spain, Malawi, Jamaica and Trinidad and Tobago.

156. In the context of the Kennedy Round, contracting parties also negotiated an Agreement Relating Principally to Chemicals[1] (which did not enter into force), a Memorandum of Agreement on Basic Elements for the Negotiation of a World Grains Arrangement,[2] which was accepted by several contracting parties including one developing country,[3] and an Agreement on Implementation of Article VI of the General Agreement (1967 Anti-Dumping Code),[4] which was accepted by several contracting parties including developing countries (and the European Economic Community).[5]

157. In GATT/992 of 30 June 1967, the secretariat provided a brief summary of the results of the Kennedy Round indicating, inter alia, that total concessions granted by the participants making tariff concessions affected trade valued at just over US$40 billion in 1964 import values. The secretariat also prepared a Preliminary Assessment of the Results of the Kennedy Round[6] and a review of the Kennedy Round results from the standpoint of developing countries.[7] The Committee on Trade and Development established an Ad Hoc Group on assessment of Kennedy Round results. The report of the Ad Hoc Group noted that of the total dutiable imports by six developed markets[8] from developing countries, valued at US$5 billion in 1964, 58 per cent had benefitted from duty reductions in the Kennedy Round. A secretariat study indicated the distribution of duty rates, depth of tariff cuts and trade involved with respect to twenty-three product groups, comprising 367 tariff headings, of interest to developing countries.[9] Action taken in the Kennedy Round with respect to non-tariff measures was also described.[10]

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[1] 15 BISD 8

[2] 15 BISD 18

[3] Argentina, Australia, Belgium, Canada, Denmark, Finland, France, Germany, F.R., Italy, Japan, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States and European Economic Community.

[4] 15 BISD 24

[5] Australia, Austria, Belgium, Canada, Czechoslovakia, Denmark, Finland, France, Germany, F.R., Greece, Hungary, Italy, Japan, Luxembourg, Malta, Netherlands, Norway, Portugal, Poland, Spain, Sweden, Switzerland, United Kingdom, United States, Yugoslavia and European Economic Community.

[6] INT(67)201

[7] GATT/995 of 3 August 1967

[8] European Economic Community, Japan, Sweden, Switzerland, United Kingdom, United States.

[9] COM.TD/49

[10] COM.TD/48

158. The Programme of Work adopted by the CONTRACTING PARTIES at the twenty-fourth Session noted that the results of the earlier efforts and the Kennedy Round had left many of the trade problems of most developing countries unresolved.[1] The conclusions relating to the trade of developing countries referred to the importance of advanced implementation of Kennedy Round results, and further work on tropical products, import restrictions maintained by developed countries, tariff classification, expansion of trade among developing countries, preferences by developed countries to developing countries, consultations with developing countries, problems relating to cotton textiles, problems relating to other products such as those from cottage industries, the identification of new market opportunities, and the examination of special tariff problems, etc.[2]

Part IV

159. In the light of the 1963 Ministerial Resolution, in 1965 the CONTRACTING PARTIES drew up a Protocol amending the General Agreement to introduce a Part IV on Trade and Development. After being implemented on a de facto basis, this Protocol entered into force in June 1966. The Protocol has been accepted by developed and developing contracting parties. The provisions of Part IV deal, inter alia, with the questions of special measures for developing countries, reciprocity and certain commitments by developed and developing contracting parties, including provisions for joint action by the contracting parties within the framework of the General Agreement to further the objectives set forth in Article XXXVI. In particular, Article XXXVIII:2(d) provides that the CONTRACTING PARTIES shall keep under continuous review the development of world trade with special reference to the rate of growth of the trade of the less developed contracting parties and make such recommendations to contracting parties as may, in the circumstances, be deemed appropriate.

Generalized System of Preferences (GSP)

160. The idea of generalized trade preferences for developing countries was discussed over a number of years, and had been considered in GATT as early as 1963. At the second UNCTAD, held in New Delhi in 1968, there was agreement in principle to establish a system of generalized preferences. The GSP was granted a ten year waiver by the CONTRACTING PARTIES in June 1971. Austria, Czechoslovakia, the EEC, Finland, Japan, New Zealand, Norway, Sweden and Switzerland introduced GSP schemes during 1971 and 1972. Australia, which had introduced a special system of preferences in July 1963, replaced it in 1974 by its GSP scheme, which was much wider in product coverage. Canada and Hungary introduced their schemes in 1974, and the United States and Poland in 1976. After the Tokyo Round, the GATT waiver was superseded by the provisions of the Enabling Clause, which recognized the GSP as a standing arrangement in favour of developing countries.

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[1] 15 BISD 68, para. 6.

[2] 15 BISD 70-73.

161. The initial GSP schemes covered, aside from industrial products, only a limited number of agricultural products. The agricultural product coverage has been increased gradually in response to requests from developing countries, in particular during the Tokyo Round. In the context of the Tokyo Round, the GSP was not considered negotiable by developed countries. In practice, however, a number of these countries extended or improved GSP treatment available to tropical products.

162. From the outset, the GSP schemes have covered a wide range of industrial products. However, their application has been subject to quantitative and/or country limitations in major markets. In renewing their GSP schemes for the 1980's, several developed countries adopted revised GSP policies, in general reflecting a concern for greater differentiation among beneficiary countries.

Tokyo Round

163. The Tokyo Round of Multilateral Trade Negotiations 1973-1979 was launched at a Ministerial Meeting held in Tokyo. The Tokyo Ministerial Declaration established the objectives of the negotiations, their scope and coverage as well as the basic principles and modalities. The negotiations would be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity. The Ministers, inter alia, recognized the need for special measures to be taken in the negotiations to assist the developing countries in their efforts to promote economic development and the importance of providing them with special and more favourable treatment. Ninety-nine countries of which twenty-five were developing countries not contracting parties to the GATT took part in the negotiations. Developing countries participated actively in all aspects of the negotiations.

164. In the context of the Tokyo Round, two developing countries which had initially applied for provisional accession negotiated full accession to the General Agreement. The schedules of concessions are annexed to the respective Protocols of Accession.[1] Another developing country which also negotiated accession in the context of the Tokyo Round decided later on to postpone accession to GATT.[2]

165. In the tariffs area, developed contracting parties agreed, with some product specific exemptions, to implement tariff cutting formulae with harmonizing coefficients. Several developing contracting parties agreed on item-by-item tariff concessions and one developing country bound its entire

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[1] Colombia (Schedule LXXVI) 26 BISD 222 and the Philippines (Schedule LXXV) 26 BISD 223.

[2] Mexico (Schedule LXXVII) 26 BISD 238 and L/4981.

customs tariff at a fixed ad valorem rate. The MTN schedules of concessions made by developed and developing countries appear in the 1979 Geneva Protocol[1] as well as in the Supplementary Protocol.[2]

166. An assessment of the results of the Tokyo Round appears in the Report of the Director-General (Geneva, April 1979) and in the Supplementary Report (Geneva, January 1980). The total value of trade affected by m.f.n. tariff reductions and bindings of prevailing tariff rates amounted to US$155 billion, measured on m.f.n. imports in 1976 or 1977 excluding petroleum, crude and refined. Concessions by the European Communities and eight industrial countries (Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland and the United States) covered imports valued at US$141 billion, US$14 billion in agriculture and US$127 billion in industry. Concessions by other developed countries affected imports valued at US$0.4 billion in agriculture and US$2.7 billion in industry. Although the participation of developing countries was not subject to the reciprocity rule, they made contributions in the form of tariff bindings or reductions on US$3.9 billion of their imports in 1976 or 1977. Considering the nine industrial markets enumerated above, the weighted average tariff on industrial products declined from 7.0 to 4.7 per cent, representing a 34 per cent reduction of customs collection. Measured on the basis of simple tariff averages, the reduction amounted to 39 per cent and the level of tariffs on industrial products declined from 10.4 to 6.4 per cent. As a result of the harmonizing effect of the tariff-cutting formula, the difference in the tariff levels of the nine industrial markets was reduced by 25 per cent, measured by the standard deviation of national averages. Imports into the nine markets from developing countries affected by m.f.n. tariff concessions amounted to nearly US$40 billion; US$12 billion in agriculture and US$28 billion in industry. In agriculture, tariff action on products of interest to developing countries mainly took the form of improvements in the Generalized System of Preferences (GSP), in the framework of tropical products negotiations. Concessions on an m.f.n. basis in agriculture resulted in a decline of the weighted average tariff faced by developing countries from 8.1 to 7.1 per cent in the nine developed country markets. The nine m.f.n. tariffs facing developing countries' exports of industrial products were reduced by 27 per cent on the basis of the weighted average tariff, and by 38 per cent on the basis of the simple average tariff.

167. The effect of m.f.n. concessions on the GSP was difficult to assess in view of the imprecision underlying GSP statistics. Products entitled to GSP represented US$4.6 billion or 23 per cent of dutiable imports of agricultural products, and US$22.5 billion or 65 per cent of dutiable imports of industrial products. GSP contributions increased the GSP product coverage by US$0.9 billion in agriculture, and in industry they

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[1] The 1979 Geneva Protocol contains the following schedules of concessions: Canada, Czechoslovakia, New Zealand, Norway, South Africa, United States, Finland, Sweden, Austria, Japan, Spain, Yugoslavia, Switzerland, Iceland, Argentina, Jamaica, Romania, Hungary.

[2] The Protocol Supplementary to the Geneva 1979 Protocol contains the following schedules of concessions: Australia, Brazil, Canada, Chile, India, Pakistan, Indonesia, Dominican Republic, Haiti, Uruguay, Peru, Malaysia, Israel, Spain (French text), Ivory Coast, Korea, Egypt, Zaire, European Economic Community, Singapore.

nearly compensated for the elimination of GSP preferences resulting from m.f.n. concessions at zero rates. The GSP preferential margin increased slightly in agriculture as m.f.n. concessions were more important on non-GSP products. In industry, where the GSP coverage was more extensive, especially in processed goods, the GSP preferential margin showed a decrease as a result of the application of the tariff-cutting formula on items where GSP admission was free of duty. Table 6 of the Supplementary Report illustrates the evolution of m.f.n. and GSP tariff levels and the trade coverage of both m.f.n. concessions and GSP contributions.

168. At the thirty-fifth session, the CONTRACTING PARTIES decided, in respect of the concessions specified in the Geneva (1979) Protocol and in the Supplementary Protocol, that for the purposes of the General Agreement, a contracting party which had a principal supplying interest in the product concerned, during a representative period prior to the time when the question arose, would be deemed to have initial negotiating rights.[1]

169. There was no group in the Tokyo Round that dealt exclusively with developing countries. In the Tokyo Round developing contracting parties insisted that in each and every area of the negotiations there was need for the provision of special and differential treatment for developing countries. Thus, provisions for special and differential treatment appear in the MTN Agreements on Technical Barriers to Trade, Government Procurement, Subsidies, Anti-Dumping and Customs Valuation.[2] The principle of differential and more favourable treatment for developing countries was also recognized in the Framework Decisions, that is, in the Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, the Decision on Safeguard Action for Development Purposes, the Declaration on Trade Measures Taken for Balance of Payments Purposes, and the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance. Other agreements negotiated in the context of the MTN were the Agreement on Import Licensing Procedures, the International Dairy Arrangement, the Arrangement Regarding Bovine Meat and the Agreement on Trade in Civil Aircraft.[3]

Trade in textiles and clothing

170. On a number of occasions, contracting parties have expressed concern about the continued use of quantitative trade restrictions, including where these have affected the exports of developing countries. One sector which has been the subject of particular concern is that of textiles and clothing. In the late 1950's developing countries began to emerge as competitors in the international market for textiles and clothing, leading to claims of "market disruption" in certain industrialized countries, provoked by sudden increases in imports from specific "low priced" sources. In the early 1960's, the Short Term - and then the Long Term - Arrangement on Cotton Textiles (LTA) were negotiated under which developed importing

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[1] 26 BISD 202

[2] The texts of the MTN Agreements appear in 26 BISD 8-83, 116-150. Current participation in the MTN Agreements is listed in L/5517 and Addenda.

[3] The texts of the MTN Arrangements and 1979 Decisions appear in 26 BISD 154-161, 26 BISD 91-115, 26 BISD 84-90, 26 BISD 162-170, and 26 BISD 203-218.

countries were able to restrict imports of cotton textiles and clothing from "low-priced" sources on a selective basis, in derogation from normal GATT rules. In 1974, with the establishment of the Multi-Fibre Arrangement (MFA), the scope of the special regime for international trade in textiles and clothing was enlarged so as to cover cotton, wool and man-made fibres. The MFA has received two extensions so far, the current extension being valid up to 31 July 1986.

171. The basic objectives of the MFA are the "expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products". The MFA also aims at "ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries." The effects of the MFA on worldwide trade and production in textiles are presently being studied by the GATT, and discussions on the future of the MFA are expected to be held before the current expiry date.

Summary

172. Two general aspects of the participation of developing countries in GATT trade negotiations might be worth stressing:

a) Developing countries have tended to participate more actively in GATT negotiations over the years, culminating with their participation in the Tokyo Round, where they were active in each negotiating group and increasingly sought to coordinate their respective positions in matters of general interest.

b) Concessions to developing countries in the course of GATT trade negotiations have been made on the basis of a flexible notion of reciprocity.

173. It is clear from the above account of successive negotiating rounds that significant progress has been made through the years in reducing trade barriers. In the Tokyo Round, notable progress was also made in clarifying and improving procedures and rules in several spheres.

174. However, continued discussions in various GATT fora, as well as the work programme established by the CONTRACTING PARTIES in November 1982, point to concern among contracting parties regarding the present state of the trading system. This concern reflects not only dissatisfaction with past progress in certain key areas and in respect of particular sectors, but also the feeling of many contracting parties that past progress towards a more liberal and secure trading environment is being increasingly eroded.

175. The most notable area in which progress has been made in reducing barriers to trade is that of tariffs. Tariffs have been gradually but substantially reduced in successive negotiating rounds. Following the Tokyo Round, the weighted average tariff on industrial products in developed countries stood at about 5 per cent. As mentioned above, in the Tokyo Round a tariff cutting formula was adopted which also reduced the spread of tariffs by cutting higher tariffs proportionately more than lower ones. On the other hand, tariff cuts on a number of products were lower than those implied by the general tariff cutting formulae and so in most countries tariffs in certain products remain well above average levels. In developed countries, this applies especially to the agricultural sector and to certain manufactures, such as textiles and clothing products, which are of particular interest to developing countries.

176. Whilst success in reducing tariffs has resulted in their becoming a relatively less important instrument of commercial policy, it is the maintenance, and to a degree the increased use, of a range of non-tariff measures which has given grounds for concern. Some progress has been achieved within the GATT framework in reducing or eliminating quantitative import restrictions, but these have continued to play an important role in influencing trade flows. There is also evidence of increased resort to domestic subsidies which have a restrictive trade effect, and to such devices as voluntary export restraints and orderly marketing arrangements.

177. As far as developing countries are concerned, increased participation in successive rounds of trade negotiations has also meant that several of these countries have lowered and bound a growing number of tariffs. Once again, more limited progress has been made in respect of non-tariff measures. Various analyses of the trade policy regimes of a number of developing countries have pointed to the relative complexity and multiplicity of non-tariff measures, many of which are maintained on balance-of-payments grounds. It is noteworthy, however, that some developing countries have been attempting in recent years to reduce the incidence and increase the transparency of non-tariff measures, despite the difficulties faced by their economies.

178. It may be concluded, therefore, that there remains scope for further action in the area of trade liberalization, on the side of developed and developing countries alike, both to consolidate past achievements and to ensure a more secure and open trading environment for the future.

## 2. Factors governing possible further increases in trade

179. The major part of this note has been concerned with trends in international trade flows over the last ten to twenty years, and economic developments which have affected these trends. Emphasis has been placed on trends in trade flows between developed and developing countries. Before considering factors influencing further increases in trade, it may be useful to summarise briefly some of the more significant developments that have taken place during the last few years.

180. It is important to bear in mind that aggregated country categories hide significant differences among individual countries. In several places in this note, data have been presented on an individual country basis, and it has been possible to identify considerable variations in the experiences and situations of different countries. Such differences are attributable to a range of factors, including country size, the nature of the resource base, the degree of diversification of the economy, and the kinds of economic policies which have been pursued over the years. All these factors contribute to the degree of integration of different countries into the world economy, and the relative importance of particular product categories in their total trade.

181. The first significant development which may be noted concerns the fact that virtually all countries, including those which have large domestic markets and relatively small export to GDP ratios, have become increasingly reliant on trade to generate income. With the exception of a few years, notably 1981 and 1982, this is reflected in the relative growth rates of trade and total production, with the former generally exceeding the latter in the years covered by the period under consideration. What this means in policy terms is that countries have more reason than before to be concerned about the conditions under which international trade takes place.

182. A second trend, which is of particular relevance to questions concerning trade between developed and developing countries, is the growing share of total world trade accounted for by developing countries. This has been particularly apparent in the case of oil-exporting developing countries, at least in current price terms, in the 1970's. In constant prices, the oil-exporting countries have accounted for a growing share of world imports, but not of world exports. For non-oil developing countries, the 1970's have seen a steady rise in their share of world imports and exports, despite the effects of oil price rises on the composition of world trade measured in current prices. A significant part of the real growth in the exports of non-oil developing countries has taken place in manufactured goods, but from a generally low base.

183. Thirdly, it is notable that trade among developing countries, including among non-oil developing countries, has been a relatively dynamic element in total world trade growth, particularly from the latter part of the 1970's up to 1981. On the other hand, a variety of factors, including the recent financial difficulties facing a number of developing countries, have reversed these trends in the last year or two. Moreover, it is important to bear in mind that in absolute terms, intra-developing country trade accounts for less that 30 per cent of total developing country trade, whereas trade with developed countries accounts for some 65 per cent of the total.

184. A related observation about developing country trade concerns its commodity composition; data have been presented in this note showing the marked product diversification which has occurred in the trade of a number of developing countries. This diversification is a direct reflection of structural changes in the economies of those countries, particularly in relation to industrial development, and it has affected their imports as well as exports.

185. The increased volume of trade and greater product diversification are two factors which explain the growing involvement of developing countries in the GATT. Whereas in the past most developing countries were concerned with the conditions of access affecting relatively few products in export markets, these countries now have a more extensive interest in the general openness and security of foreign markets. However, conditions of market access may be no less important for those countries which continue to depend on a single or a limited range of products for their export earnings. Structural changes and growth in developing countries have created increased interest in the trade opportunities provided by the domestic markets of many of these countries. This applies not only to trade between developed and developing countries, but also to trade among developing countries.

186. Despite the increased participation of developing countries in world trade, and in particular the success of some of these countries in expanding their exports of manufactured goods, developed countries have continued to run trade surpluses with most developing countries throughout the post-war period. This is consistent with the observation made earlier in this note regarding the structural nature of developing country current account deficits. To some extent, the oil price increases of 1973-74 introduced a new element in trade between developed and developing countries. For the first time, the current account surplus of the developed countries turned into a deficit with the oil-exporting countries. Non-oil developing countries experienced sharp increases in their current account deficits.

187. In developed countries, part of the effort to adjust to the oil price rises encompassed policies aimed at maintaining existing economic activity and employment levels, which in the context of growing structural rigidities, increased inflationary pressures. For the non-oil developing countries, the adverse impact on the trade account of higher oil prices was partly mitigated through higher levels of borrowing, and in particular through access, via international capital markets and more directly, to the capital surpluses of the oil-exporting developing countries. In this manner, a number of non-oil developing countries succeeded, at least until 1979, in sustaining comparatively high growth rates and in expanding exports to both the developed and the oil-exporting countries. At the same time, the sustained level of economic activity in both oil-exporting and non-oil developing countries enabled these countries to provide growing markets for the exports of developed countries.

188. The second oil price rise took place in circumstances where the need to contain inflationary pressures was already leading to a switch over to more restrictive demand management policies in the developed countries. The deflationary consequences for the developed economies were reflected in a sharp fall in demand for developing country exports and a decline in commodity earnings. Protectionist pressures increased as unemployment rose and as many industries were faced with growing idle capacity.

189. In a number of developing countries which had depended heavily on private bank borrowings, the impact of these developments was compounded by the increase in interest rates, the higher rate of the dollar and the drying-up of the capital surpluses of the oil-exporting countries, leading to the current debt crisis. This crisis has been reflected in a drastic reduction of imports by the debtor developing countries from the industrialized countries and from other developing countries.

Economic and policy factors

190. At a conceptual level, a distinction can be made between changes in trade flows which result from developments in the general level or nature of economic activity, and changes which result from policy actions. In practice, the distinction is often impossible to make because of the complexity of interaction among many variables. Economic factors affecting trade flows, independently or otherwise of policy interventions, may originate from changes in supply or demand. On the supply side, trade may be affected by changes in the capital, labour or product markets. On the demand side, changes in trade flows may be occasioned by any of the following influences on the level or pattern of demand: (a) changes in demographic trends, (b) changes in the level or distribution of income, (c) changes in relative prices and (d) changes in consumer tastes.

191. Trade policy factors have played a major role in the development of trade flows between developed and developing countries. The fact that throughout the post-war period developing countries have continued to spend a significant portion of their earnings from exports to the developed countries on purchases from the latter, has not prevented developing country exports of labour-intensive manufactures, such as textiles and leather, from being affected by strong protectionist pressures. Nevertheless, the post-war movement towards trade liberalization in the developed countries did reduce barriers to imports of a growing range of products of export interest to developing countries. The movement came to

a virtual halt with the onset of global recession. At this time, developing country exports began to be more severely affected both by direct restrictions, particularly in the shape of voluntary export restraints and orderly marketing arrangements, as well as by the wider deterioration in the trade policy environment, including increased resort to domestic and export subsidy measures.

192. These developments raise the questions of the extent to which individual countries are able or willing to refrain from adopting protectionist measures when faced with difficult economic conditions or demands of domestic pressure groups. A link is often made between resort to protectionist measures and the state of an economy, the argument being that protectionism burgeons in times of reduced growth and economic difficulties. On the other hand, the experience of the last few months gives grounds for serious doubts that protectionist pressures can be expected to decline as economic recovery progresses. The absence of a clear two-way relationship between protectionist pressures and the level of economic activity leads inevitably to the conclusion that an important factor governing possible further increases in trade is the political will of contracting parties to continue taking joint action aimed at liberalizing trade flows.

193. It is important to note in this connection that developed country imports from developing countries tend in general to be a less important source of pressure on production patterns and employment than domestic factors such as changes in supply - demand relationships, relative prices, or technological growth. With some notable exceptions, including textiles, clothing and leather goods, imports from developing countries have accounted for too small a proportion of the domestic market in developed countries to be in themselves a major source of adjustment pressures. To the extent that adjustment has taken place, however, it represents a movement of resources from the less to the more productive sectors of the economies of developed countries. The greatly increased protectionist pressures in these countries in recent years are not only a reflection of recessionary conditions, but also of the increasing inflexibility of their economies. It is the latter development which may help to explain why protectionist pressures do not appear to be declining in the context of growing signs of economic recovery.

194. As far as most developing countries are concerned, comprehensive systems of tariffs and import controls have been maintained throughout the post-war period for both protective and balance-of-payments reasons. As countries with a shortage of domestic and external capital, and certain raw materials and intermediate inputs, their policies have tended to be biased in favour of imports of goods to meet investment and production rather than current consumption needs. It is often pointed out that selective import restrictions basically influence the composition and pattern of imports rather than their absolute volume, which continues to be determined by available earnings. The trading policies followed by the developing countries, however, are regarded by their developed trading partners as a matter of concern for a number of reasons:

i) the restrictions applied to certain consumer goods are seen as adding to the adjustment pressures in the corresponding sectors of the same industries in developed countries;

ii) the lack of transparency in procedures, their complexity and frequent procedural changes are seen as a source of uncertainty and insecurity for exporters in the developed countries;

iii) the heavy reliance on border measures and direct control to supplement the effects of exchange rate, monetary and fiscal policies in the developing countries is seen as producing distortions of the price system and of production and demand patterns, and also as preventing the attainment of balance-of-payments equilibrium at a higher level of imports and exports;

iv) the use of export controls and incentives to compensate for domestic rigidities or prior policy interventions is seen as contributing to difficulties in the domestic and export markets of trading partners for the products involved.

195. Most, if not all, developing countries, as well as a number of countries which are now developed, have relied at some stage on a policy of isolating their domestic markets from import competition in order to establish their own industrial capacity. In the last few years there has been a growing realization, supported by extensive empirical work, that countries which have pursued more flexible import substitution policies, and avoided excessive levels of protection and strong biases against exports, have performed better in terms of income generation and growth. This experience illustrates the point which has often been made that trade liberalization benefits first and foremost the country which undertakes it.

196. While it may be comparatively easy to find agreement among contracting parties in regard to the desirability of taking policy actions to increase trade, opinions invariably differ when it comes to balancing divergent interests and establishing an order of priorities. Despite a general recognition that liberal trade policies contribute positively to expanded exports and growth, at any given time, different countries are in different positions with regard to the nature and extent of the trade liberalization that they are able or willing to undertake.

197. Economic recovery in the United States and a number of European countries provides a favourable environment for trade liberalization in as much as there is additional income and demand to absorb increases in imports. However, as already mentioned above, the experience of recent months indicates that economic recovery by itself will not be sufficient to bring about trade liberalization. Indeed, a process of liberalization needs to be taken in hand, both to remove existing rigidities which could stifle recovery by frustrating the efficient use and redeployment of resources and to ensure that the recovery spreads to other countries as well. Such a process is particularly crucial in relation to the developing countries in debt or severe balance-of-payments difficulties, which need rapid growth in export earnings both as a means of avoiding further cuts in imports and to inspire confidence in their medium and long-term capacity to service debt.

### 3. Possibilities for future work in GATT

198. The role which GATT can play in facilitating a further increase in trade between developed and developing countries is twofold: (a) by offering a multilateral framework of rules and disciplines which enhances security, stability and equity in trade relations; and (b) by offering a

forum in which concerted efforts may be undertaken to further open markets to trade flows among countries.

199. In the light of recent economic and economic policy developments, and the concerns articulated in the Ministerial Declaration regarding the international trading system, a number of contracting parties have expressed support for the idea of a new round of trade negotiations. The launching of such a round would evidently require broad support from contracting parties.

200. Past negotiations in the GATT have always sought an appropriate balance between the rights acquired and obligations assumed by contracting parties. Thus, efforts have been made to accomodate divergent trade interests and also the stage of development or particular economic situation in which different contracting parties find themselves. It is clear from continued discussions in various GATT fora, as well as from the list of issues which have not been resolved, including in respect of the application of various rules, that results have not always been regarded as fully satisfactory by the parties involved.

201. In regard to the participation of developing countries, it can be seen from the material presented in the first part of this section that there has been a steady evolution in the rules of GATT towards the accommodation within the trading system of the special interests and difficulties of these countries. At the same time, various developing countries have participated increasingly in the negotiating process, and have assumed higher levels of commitment through binding tariffs and acceding to codes negotiated in the Tokyo Round. A number of developed countries have expressed the view that the assumption of higher levels of commitment by developing countries in the GATT has not proceeded at a satisfactory pace. This reflects the interest of developed countries in the growing and more diversified markets of the developing countries, as well as the growing competition offered by the latter countries in export markets.

202. Developing countries, on the other hand, have frequently expressed concern in regard to the difficulties they face in assuming higher levels of obligation, particularly in a situation where their own export prospects, and therefore import capacity, are hampered by a lack of GATT discipline in sectors of considerable importance to them. The agricultural and textiles and clothing sectors are most frequently mentioned in this context, but the argument has also been applied to other products such as steel, leather and footwear. In addition, many countries, including developing countries, have expressed concern at the way various rules and procedures in the GATT have been used or, in their view, circumvented, such as those relating to measures normally associated with safeguards, anti-dumping and countervailing duty actions, and other provisions.

203. In any new initiative aimed at further trade liberalization, a logical first step could be a roll-back of recent restrictions on exports from developing countries, inter alia, in the shape of voluntary export restraints and orderly marketing arrangements, and various illegal barriers, but the process could of course be extended to fresh measures of liberalization in product sectors in which the developing countries have a particular interest. At the same time, it is clear that certain problems, such as ensuring greater security for export flows from developing countries through a more effectively functioning safeguard clause, or improving access and conditions of competition for agriculture, can only be resolved on the basis of global solutions involving all major importers and suppliers.

204. Because of debt servicing difficulties, imports of many developing countries have been reduced to levels below basic consumption and investment needs. An increase in the export earnings of these countries could thus be expected to reflect itself more than ever in higher purchases by them of goods produced by their trading partners. The corollary of this statement is that, without some increases in available liquidity, it would be difficult for many of these countries to increase import outlays over the short term. Nevertheless, given the perceptions and concerns of developed countries mentioned in the previous section, it could be urged that developing countries could contribute to improved prospects for two-way trade with the industrialized countries to the extent that they can take action to simplify their import regimes and make them more transparent, to stabilize existing levels of protection and, as circumstances permit, progressively to reduce the more excessive ones. In addition, developing countries may be able to participate in a system of rights and obligations in such areas as agriculture or the use of subsidies in which both the benefits they can expect, and the contributions expected of them are more clearly defined.

205. The fuller participation of developing countries in the GATT system is related to progress made in the overall context of the adequacy, coverage and observance of GATT rules, but may also be facilitated by the capacity of the GATT system of rules to provide an appropriate degree of flexibility, balanced by commitments, in order to accommodate the particular needs of these countries as they undertake trade liberalization actions. Faced with a thin margin of foreign reserves and vulnerability to various uncertainties in domestic supply, in the availability of external private and official financial flows, and in foreign marketing conditions, many of these countries are affected by a sense of insecurity which inhibits long-term commitments with respect to trade policies. Trade liberalization and disciplines have an evident role to play in limiting price distortions and improving the allocation of resources in developing countries. However, it has been urged that there could be particular difficulties in shifting resources between different industries and economic sectors while changes in trade, monetary and fiscal policies take time to produce their full effects. The extent to which flexibility is needed by developing countries in the context of specific new commitments, and the circumstances in which such flexibility applies, would obviously be matters for discussion and negotiation among interested parties. Since the possibility of according developing countries a certain flexibility in relation to commitments and procedures already exists within the GATT framework, all that may be required is greater attention to the possibilities offered by various GATT provisions in given situations. One aspect of flexibility relates to time, so that developing countries can obtain time-bound exemptions from commitments, or special staging provisions with respect to the implementation of measures. Another aspect relates to mechanisms, particularly in the context of Article XVIII:A and XVIII:C, whereby commitments can in certain circumstances be revised or temporarily suspended.