TRADE IN MANUFACTURED PRODUCTS WITH DEVELOPING COUNTRIES: REINFORCING NORTH-SOUTH PARTNERSHIP

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A Report to
The Trilateral Commission

Summary of report on pages IX-XVI
This report was prepared for the Trilateral Commission and is released under its auspices. It was discussed at the Trilateral Commission meeting in London on March 23–25, 1980. The authors, who are experts from Western Europe, North America and Japan, have been free to present their own views; and the opinions expressed are put forth in a personal capacity and do not purport to represent those of the Commission or of any organization with which the authors are associated. The Commission is making this report available for wider distribution as a contribution to informed discussion and handling of the issues treated.

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TRADE IN MANUFACTURED PRODUCTS WITH DEVELOPING COUNTRIES: REINFORCING NORTH-SOUTH PARTNERSHIP

Report of the
Trilateral Task Force
on North-South Trade to
The Trilateral Commission

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The Trilateral Process

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SUMMARY OF THE REPORT

Trade in Manufactured Products with Developing Countries: Reinforcing North-South Partnership

Trade in manufactures* takes us to the heart of the critical trade problem facing North and South over the long term: adjustment to a changing global division of labor. A relocation of world industrial capacity to the former "peripheral" countries is underway. Its accommodation is central to the agenda of the next two decades and beyond. Making room for the developing countries involves more than a division of material benefits. Gains from trade that can underwrite sustained economic growth are important, but do not exhaust the matter. At stake is the stability of international relations in a world of greater economic competition and diffusion of wealth.

The expansion of trade in manufactures in the early postwar era was concentrated among the industrialized countries. The transition to more developing country participation came in the 1960s. Exports of industrial products from developing countries increased in value at an annual rate of 19 percent between 1963 and 1973, by which time they represented about two-fifths of total developing country sales abroad (excluding petroleum). This transition for developing countries rested to some extent on favorable aspects of the international environment—the progressively more liberal trade regime, sizable international flows of long-term capital and technology, and a stable framework of fixed exchange rates. The transition also rested on national policies in the South that no longer discriminated against exports. Several countries altered their development strategies in the early 1960s to begin to exploit the rapidly expanding world market.

The rise in oil prices in 1973 and 1974 radically altered the prospects for the international economy. The oil-importing developing countries, generally trying to sustain their higher rates of growth, greatly increased their external debt. This resort to debt in unprecedented amounts translated into greater demand for the exports of the industrial countries. It also impelled redoubled efforts by these countries to expand exports of manufactures. In the post-1973 situation,

*Throughout the report we use the shorthand "manufactures" for manufactured products.
sharpened again by the second "oil shock" in 1979–80, trade has become even more vital to the development prospects of many developing countries.

**Dimensions of North-South Trade in Manufactures** (Chapter III)

Many observers are imperfectly informed about trade patterns between North and South. The penetration of cheap imports of manufactures from developing countries is frequently exaggerated. The reciprocal flow of exports of capital goods and intermediate products is often neglected.

Despite rapid expansion of developing country exports, their share of the market for manufactures in industrial countries remains small in absolute terms: The ratio of imports from developing countries to apparent consumption of all manufactures in industrial countries rose from 1.2 to 2.0 percent between 1959–60 and 1975. It is not total shares, however, but rather more concentrated sectoral penetration—and the rapidity of recent change—that informs the calls for protectionist measures against developing countries. For clothing, by far the most heavily penetrated sector, imports from developing countries still represented only 8.6 percent of apparent consumption in industrialized countries in 1975; but in several particular products this percentage was much higher, and 60 percent of the absolute increase in industrialized country imports of clothing between 1973 and 1976 was supplied by developing countries. Specialized advantage has been successfully pursued.

Comparing the three Trilateral regions as importers of manufactures, Japan in 1979 had the lowest ratios of imports of manufactures from developing countries to total manufactures consumption and to GDP. On the exporters' side, a few developing countries are dominant: Hong Kong, South Korea, Taiwan and Singapore accounted for about 60 percent of all developing country exports of manufactures in the late 1970s. In a second category are the three large Latin American economies: Brazil, Mexico and Argentina. While they account for five times as much production of manufactures as the four key Asian NICs, their exports of manufactures were less than a fifth as much in 1979. India and Pakistan belong in a related category. A fourth grouping includes other, and smaller, countries that have experienced rapid growth of exports of manufactures in the last decade—such as Malaysia, Thailand, the Philippines, the Ivory Coast, Tunisia, Morocco, Colombia, Chile, and Uruguay. While none individually accounts for a very large percentage of total trade, these exporters are evidence of the diffusion of the new pro-trade perspective in the developing world, and of the dispersion of industrial capacity as well. Over the longer term, the question of manufactured exports from the South is not just a matter of a handful of countries, the NICs. The developed countries are better advised to recognize and adapt to changes in industrial capacity and potential exports of manufactures in the developing world as a whole.

Developing countries, despite their recent impressive growth in exports of
manufactures, remain much larger buyers than sellers. In 1979 imports of manufactures from industrialized countries by all developing countries (including OPEC countries) exceeded exports of manufactures to industrialized countries by a factor of 3.5. Although that ratio will probably fall in the future, developing countries are a much more rapidly growing market for the industrial countries than the OECD bloc itself. Exports of manufactures from the industrial countries to the developing countries have been as specialized sectorally as the opposite flow. Northern exports are skill- and technology-intensive in contrast to the labor-intensive consumer goods imported from developing countries. Comparative advantage, and relatively large gains from trade, are evident from this disparate product composition of trade.

Comparing the Trilateral regions as exporters, Western Europe (EEC and EFTA) exports the most manufactures to the South, including or excluding the oil exporters. Europe also enjoys the largest absolute surplus with developing countries, including or excluding the oil exporters. Japan has the largest surplus relative to corresponding imports. Japan’s export-import ratio in trade in manufactures with the South was 7 to 1 in 1979, far greater than Europe’s 4 to 1 or North America’s 2 to 1.

The aggregate employment effect of this trade in the North appears to be positive on balance. Such a result is obtained because the absolute size of the industrialized country trade surplus offsets the larger relative labor content of imports of manufactures from developing countries. Jobs created by exports to the developing countries are more likely to be in skilled occupations that lead to higher incomes than the jobs displaced by imports. The consequent upgrading of employment in the developed countries is one of the benefits from specialization. It is also a potential serious cost, however, to those who lose their jobs and have difficulty finding others. The more heterogeneous the labor force in individual Trilateral countries, the more disparity there is likely to be between the qualifications of those losing jobs and the requirements of new ones. Adequate policies must confront the reality and human dimension of this problem.

With regard to future production and trade in manufactures, projections indicate that, first, total productive capacity in developing countries will grow more rapidly than in the industrialized countries, and second, the margin of advantage enjoyed by the North in its industrial trade with the South will narrow (with exports only about twice as large as imports by the year 2000), although the absolute surplus will continue to increase. There are some divergences among four recent projections on the rapidity and pattern of trade growth that can be reasonably expected in the 1980s and 1990s.

The consequences of different styles of North-South interaction over the next two decades are brought out more dramatically in various scenarios developed by the OECD Interfutures Project. The greatest economic costs unfold in the North-South “de-linking” scenario. The costs for the North are even greater
than for the South—most dramatically for Japan. Another scenario sketches the implications of fragmentation into North-South regional associations: North America allies with Latin America; the EEC with Africa; and Japan with South-East Asia. Such regionalism, though less costly than "de-linking" in economic terms, is not an attractive alternative to effective North-South cooperation on a global scale.

**Policy Responses (Chapter IV)**

The dominant theme of industrial country commercial policy in the post-war era has been a commitment to freer trade. GATT's creation early after the Second World War was motivated by such a liberal ideology. It has presided over seven rounds of multilateral trade negotiations, through the Tokyo Round completed in 1979. During this time the initial average tariff level of about 50 percent on industrial products has been successively cut. After completion of the reductions negotiated in the Tokyo Round, the weighted average tariffs of the industrial countries will be less than 7 percent on finished manufactures, 4 percent on semifinished products, and virtually zero on raw materials.

Liberalism has come increasingly under attack since the 1970s, though protectionism has not yet won the day. Growing protectionist practice has had its counterpart in closer scrutiny of the liberal model. Part of the challenge has come from the South. Few developing countries participated actively in the early rounds of multilateral tariff negotiations. They directed their energy and limited political weight elsewhere—principally to argue for greater economic assistance and for increased and more certain foreign exchange earnings from primary commodity trade. The eventual establishment of UNCTAD in 1964 gave new impetus to the elaboration and persistent advocacy of an agenda that evolved in the 1970s into the formal call for a New International Economic Order. Even while arguing only for equal opportunity, some supporters of the New International Economic Order seemed to call into question the underlying principles of liberalism under which the old order had prospered. This apparent attack on liberalism from the South was matched by evidence of flagging enthusiasm in the North. Greater economic interdependence and rising imports of manufactures have led to an increasing number of proposals to reduce and manage trade flows.

The "new protectionism" that gathered strength in the 1970s has three characteristics that differentiate it from the old. Rather than generally limiting trade, it tends, first, to be sector specific and, second, to involve bilateral negotiation. Third, it tends to use new instruments of quantitative restriction that evade GATT rules and supervision. One common form of restriction has been orderly marketing arrangements formally negotiated among governments. In this category, an examination of the evolution of the Long-Term Arrangement on Cotton Textiles and the later Multi-Fiber Arrangement is instructive in several ways. Restrictions have taken a number of other forms as well.
An estimate of the pervasiveness of the new protectionism does not come easily by the very nature of its intent to evade surveillance. A recent inventory of restrictive practices indicates that for manufactures, 22 percent of EEC tariff categories, 21.3 percent of United States categories, and 5.2 percent of Japanese categories were subject to quantitative restrictions in 1976. An IMF survey found that Taiwan was subject to over 30 restrictive actions in 1976 and 1977 alone; South Korea confronted more than 70 measures by industrial countries between 1971 and 1977.

Importing countries have chosen the new protectionism because, paradoxically, the liberalization of trade has made tariff barriers a less usable instrument. Quantitative restrictions can more effectively satisfy domestic political pressures while avoiding the international consequences of retreat from GATT obligations. They also permit the industrial countries an edge in bilateral negotiations with smaller and more vulnerable developing country suppliers.

The Tokyo Round of bilateral trade negotiations, launched in 1973 and completed in 1979, broke new ground in explicitly confronting the issue of nontariff barriers. Not much progress was made on the core problem of safeguard actions, but there were some considerable successes on other fronts. Agreements were reached on six major codes to govern the conduct of international trade. Of the six, the Government Procurement Code relates to perhaps the single largest new market created by the negotiations. The Subsidies/Countervailing Duties Code is perhaps the most relevant to the interests of the developing countries. It seeks to restrict the use of subsidies, on the one hand, while limiting the application of countervailing duties on the other.

In view of the scope of these agreements and the magnitude of tariff cuts—and the explicit recognition of special status for developing countries—the Tokyo Round is a significant forward step in dealing with North-South trade issues. That it evoked a decidedly lukewarm response from developing countries, however, is also true. Although 99 countries participated in the talks, Argentina was the only developing country that signed the entire package. Subsequently, because the codes apply only to signatories, an exception to most-favored-nation treatment, others have found it in their interest to subscribe to some of them. Developing country dissatisfaction has a factual basis in the failure to deliver a promised, favored treatment. Even as developing countries accept and abide by the Tokyo Round results, their reserve is disturbing. These countries promise to emerge as larger factors in world trade over the next two decades, and the rapidity of their growth and structural change poses a challenge. The Tokyo Round did not entirely succeed in integrating these countries more fully into a rule-oriented world trading system, and persuading them of benefits equivalent to the responsibilities evident in such a system.

The results of the Tokyo Round, despite their limitations and ambiguities, demonstrate continuing commitment by the industrialized countries to trying to
make an open trading system work. That task is a continuing one, and one in which the developing countries retain a basic interest.

Policy Priorities (Chapter V)
Doubts have been raised about the capacity of a liberal market regime to prevail in the absence of a single, economically dominant leader—the role played by an indisputedly dominant United States in the earlier decades after World War II. A multipolar power structure—and economic power is now undeniably more diffuse—weakens definition and pursuit of the general interest. North-South trade in manufactures poses a direct test to the adequacy of economic cooperation on a global scale.

Some see in the dynamics of North-South trade factors which will lessen protectionist pressures over time. One argument is that export diversification within the South will lessen the concentrated pressure in certain labor-intensive sectors that characterized the first wave of NIC exports. Such diversification, however, will not prevent new sectors from coming under added import competition from developing countries if high export growth continues; and other lower income countries will eventually replace the more advanced as suppliers of textiles and clothing. Another argument is that expanding intra-industry trade will diminish protectionist sentiments of domestic manufacturers and workers and make free trade policies more feasible. Even within industries, however, developing countries will still specialize in “standard” goods. Interpenetration of investment, important among the developed countries, is unlikely to play the same role. Helleiner transforms the intra-industry perspective into an intra-firm emphasis, which he sees as the likely wave of the international trading future and as offering “more room for optimism with respect to the capacity of firms and industries in developed countries to adapt to increasing LDC competition.” This argument also has limits, however. Intra-firm activities represented only about one-third of United States imports from developing countries in 1977; and intra-firm and intra-industry linkages are not absent in some of the most highly protected sectors. All in all, it is uncautious to presume that a liberal posture will easily prevail.

The appeal of a “managed” response to absorption of developing country imports is considerable. It holds out the prospect of satisfying domestic producers as well as guaranteeing growing exports from the South. And it promises to accomplish these objectives without wasteful and costly unutilized capacity and unemployment in the industrialized countries or damaged development prospects for developing countries. For all its apparent attractiveness, however, the planned or managed approach is subject to the basic limitation of trying to reconcile the irreconcilable. Expanded trade and accelerated adjustment do not go hand in hand with greater protection and sheltered employment. At some point, one of the objectives must yield, and it inevitably seems to be the trend
growth in imports of manufactures. It is ultimately resistance to apparent national interest that makes a liberal regime best for all, if not necessarily best for each. Such abnegation is absent in a restrictive setting, and exposes the constant danger of a destructive cycle of retaliation.

The new order which the majority of developing countries advocates to govern North-South trade in manufactures is adherence to the liberal principles of the old. Such an emphasis is a measure of the practical gains developing countries have achieved through this trading system in recent years, and the advantages anticipated through its continuation. Exports of manufactures have become more important, and ideological contention and confrontation have diminished. Developing countries still remain to be convinced that the industrial countries are prepared to accommodate the shifts in comparative advantage that are underway. For now, the attitude is one of watchful waiting. A new surge of protectionism would undoubtedly evoke a more militant and different response.

The general directions of policy required on the part of Trilateral countries are rather clear. They require cooperative efforts, among Trilateral countries themselves principally but sometimes in tandem with developing countries, to:

- **restore and sustain high rates of growth in the North.**
  Sustained recovery from the slower real growth of the last several years in many of the industrialized countries will make perhaps the most significant contribution to averting potential trade conflicts with the South. Protectionist measures will not contribute to a satisfactory way out of the vicious circle of inflation and recession that still grips many countries.

- **relate national strategies of industrial growth to international trading opportunities and desist from protectionist policies.**
  Policies that promote adequate adjustment are the centerpiece of any program to encourage vigorous industrial trade between North and South. They must comprehend not only compensation to losers by virtue of import competition but also measures to hasten the transition to a more viable and efficient economic structure. The market supplementation of effective adjustment policies is the meaningful alternative to the market intervention of protection in a world of rapid shifts in productive capacity. These policies should be a matter of continuing discussion and exchange of information within GATT.

- **build upon advances made in the Tokyo Round and repair some of its deficiencies.**
  The importance of a safeguards code to North-South trade cannot be overemphasized. Developing countries are the weaker party in bilateral negotiations conducted without regard to an accepted set of rules. On occasion, some may benefit by reason of special geopolitical considerations, but even the exceptions further weaken the liberal trade regime.
With regard to extension and binding of the Generalized System of Preferences, there are dangers in the permanence of such a system. Yet, unless more serious efforts are made to reduce tariff escalation and to accommodate differential treatment to the competitive capabilities of many of the developing countries, preferences remain a proven source of opportunity for expanded exports. This is no time to phase the system out, before the poorest will have had a chance to benefit, and in a climate of uncertainty concerning the expansion of trade.

- **Assure a continuing flow of capital to developing countries to finance continuing development.**

  In the wake of another round of oil price increases in 1979, there is even more reason to re-examine arrangements for meeting the continuing financial requirements of developing countries. North-South trade issues arise in a context including both capital and merchandise flows. Dealing with one without attention to the other will not suffice. This is why exclusive attention to specific trade policies risks an inadequate response.

- **Encourage expansion of industrial trade within the South.**

  In 1979, 32 percent of industrial exports stayed within the South, compared to 28 percent in 1973. It is in the interest of the North to encourage more intensive trade within the South. The resulting more diversified composition of developing country exports would take some of the pressure off specialized import penetration of the industrialized countries. Widening ties weaken dependence upon the industrialized countries, and reduce the vulnerability of international openness. In practical terms, this interest can be translated into more enthusiastic acceptance of discriminatory, preferential practices that favor developing countries, and more generous contributions to enhance the credit capability of developing country exporters.
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I. INTRODUCTION

This report addresses the subject of North-South relations through the optic of one increasingly important nexus between the developed and developing countries: international trade in manufactures. The focus is a timely one for at least three reasons.

First, the great rise in oil prices in 1979-80 again underlined the importance of foreign exchange to the growth aspirations of the non-oil developing countries in the period ahead. A 1980 current account deficit of over $70 billion and projected 1981 deficit of almost $90 billion come on top of long-term debt already at about $275 billion at the end of 1979.1 Exports are vital to pay for oil and other import requirements, service the debt and satisfy creditors that additional needed finance can be safely extended.

Second, even as developing country exports have become a more central concern, the prospects for access to industrial country markets have become more clouded. On what now seems almost a daily basis, the reality of slower industrial country growth has led to revision downward of trade projections for the 1980s. In the brief span between the World Development Reports for 1978 and 1980, the performance expected in the industrial countries for the next several years has been significantly modified. Slower growth translates into smaller demand for imports and pressures to protect jobs against what is seen as unfair competition from abroad.

Third, the institutional arrangements and tariff structures governing trade have been modified during the Tokyo Round of multilateral trade negotiations. No comparable effort will be forthcoming for several years. It is necessary to assess the adequacy of the Tokyo Round results in the face of new developing country needs and the more pessimistic outlook for industrial country growth. This is the more so in view of the dissatisfactions voiced by many developing countries at the outcome of the Tokyo Round.

Beyond these factors lending timeliness to the discussion, our particular focus on trade in manufactures commends itself because it takes us to the heart of the critical trade problem facing North and South over the longer term: adjustment to a rapidly changing global division of labor. Developing countries already have become, and will increasingly be, significant exporters of manufactures. In 1955, manufactures accounted for only 17 percent of their exports,
excluding oil. Now, without the oil-exporting countries, the share of manufactures in developing country exports stands at about 40 percent. The volume of exports of manufactures from developing countries has been growing at more than 11 percent a year since 1963—a third again as fast as those from the industrial countries. Certain developing countries have already attained global importance: Brazil today is the eighth largest market economy in the world. Others, like Taiwan and South Korea, although smaller, have carved out even larger shares of international trade. Still other countries, large and small, have reached levels of income and technical sophistication that make their emergence only a matter of time. Especially notable is the potential impact upon world markets of a China now apparently committed to a model of development that is much more outward looking. A relocation of world industrial capacity to the former "peripheral" countries is underway. Its accommodation is central to the agenda of the next two decades, and beyond.

In the face of this transformation, some of the issues that formerly dominated the agenda of North-South relations have receded in prominence. Economic assistance and commodity agreements, while still of great significance to the poorest and most specialized developing country economies, no longer have the general relevance of even a decade ago. An increase of 25 percent in the price of each of the ten UNCTAD core commodities would yield annual revenues to developing countries well less than half as large as the additional export proceeds from full trade liberalization in manufactures. Stabilization of commodity prices through a Common Fund, without improved prices, will bring much smaller benefits.

The trade dynamism and increasing industrialization of the most successful of the developing countries have led to a growing differentiation within the South. That differentiation translates into a need for a wide variety of policies appropriate to the difficulties faced by different groupings of countries. Expanded trade is no general panacea. By stressing the importance of coming to grips with the larger exports of manufactures originating in developing countries, we do not intend to rationalize neglect or indifference to the appalling plight of almost a billion persons condemned to intolerable poverty. Effective policies to deal with hunger and malnutrition, and inadequate export receipts from primary exports, will continue to be priority concerns of many countries, domestically as well as internationally.

Yet it is also important to recognize that opportunities for successful future development of even the poorest countries will be shaped to an important extent by the response of the industrial countries to the changes in comparative advantage already evident. If markets for exports of manufactures fail to expand,

*The ten UNCTAD core commodities are, cocoa, coffee, copper, cotton, jute, rubber, sisal, sugar, tea, and tin. One reason for this result is that developed countries are responsible for almost half the total exports of these commodities, concentrated in the largest: copper, cotton, and sugar.
poor latecomers will be disadvantaged. They will be unable to follow in the footsteps of middle income developing countries who move on to more sophisticated products appropriate to their higher incomes and more advanced technology. They will face markets for simpler, standardized goods in which new protective barriers constrain future growth. There will be no "graduation," just greater competition among developing countries for limited markets.

Shifting comparative advantage affects not only North-South relations, but economic (and political) interactions among the industrialized countries as well. The rapid postwar growth of West Germany and Japan, fueled by exports of manufactures, has vaulted them to high per capita incomes and strong economies. Southern European countries have also experienced above average expansion. The United States and United Kingdom have grown less rapidly. This realignment has had large and visible consequences in the substance and conduct of international economic relations.

Making room for the developing countries involves more than a division of material benefits. Gains from trade that can underwrite sustained economic growth are important, but do not exhaust the matter. At stake is the stability of international relations in a world of greater economic competition and diffusion of wealth. Earlier in this century the inability of the then more advanced countries to deal adequately with the emergence of then newly industrializing countries like Germany and Japan meant that the altered structure of power in Europe and Asia was more easily converted to aggressive designs. The cooperative framework that evolved among the industrial countries in the aftermath of the Second World War has had a dramatically different outcome. The challenge now posed by cumulating economic forces that will produce a new series of competitors requires as effective and constructive a response.†

This response need not be based on the altruism of the North, nor motivated by strategic considerations. The changing global division of labor can bring mutual economic benefits to North and South together. More trade can afford gains without being disruptive. Whether it will is another matter.

Policymakers within the industrialized countries confront a difficult task. Change is for many uncertain and unwelcome. An anxious labor force and electorate is ill informed about the facts of trade in manufactures between North and South, above all its reciprocal character. People must be persuaded, practically rather than intellectually, that developing country trade is neither unfair nor menacing, and that adjustment is possible and preferable. That means de-

*Because of the surpluses enjoyed by the industrialized countries in their trade with the non-oil Third World, North-South trade increasingly has an influence on differential performance in the North.

†The policies required apply to trade among the Trilateral countries as well as that between North and South. Protectionism directed to imports from other industrial countries is no less threatening to world order than measures directed against developing countries. Nor is it unrelated.
sign of policies that effectively diffuse the costs of displacement so that they do not fall disproportionately on limited groups who are understandably reluctant to bear them. It also means attention to international burden-sharing. Developing as well as developed countries must contribute to what is seen as a feasible level and pattern of trade. Management of structural change on a global scale is not amenable to domestic resolution alone.

The structure of this report attempts to respond to these needs. It consists of four main sections. In Chapter II, we examine briefly the evolution of North-South trade in the post-World War II period, stressing three different phases: the slow expansion of the 1950s, largely limited to a traditional exchange of Northern manufactures for Southern primary commodities; the transition in the 1960s, when exports of manufactures from developing countries began to accelerate; and the readjustment of the 1970s, when the rising price of oil necessarily dictated to oil-importing developing countries a greater emphasis on exports and an increase in external debt.

Chapter III examines in more detail the characteristics of the trade in manufactures as it has evolved between North and South. It emphasizes the reciprocal flow of imported manufactures into the developing countries and the importance of such purchases for the industrial countries. This section also explores the direct and indirect employment consequences within the industrial countries of expanded trade with the developing countries. Finally, we project some of these dimensions of trade interdependence into the future and examine the implications of alternative scenarios of global development.

Chapter IV discusses policy responses. It draws out and contrasts the mixed elements of liberalism and intervention that now characterize attitudes in the industrialized countries about international trade. It considers the evidence of new protectionist measures that various countries have put in place to limit imports from developing countries. It summarizes the results and implications of the Tokyo Round of multilateral trade negotiations.

Chapter V sets out needed policy priorities. It presents some specific proposals to facilitate expanded trade in manufactures of the South, consistent with the interests of the North and with political realities. We advocate free, but fair, trade, and not a managed liberalism of planned market shares. Only positive adjustment in both industrialized and developing countries, and the anticipation of market forces, can ease the transition.
II. TRADE AS AN ENGINE OF GROWTH

A. POSTWAR DEVELOPMENT UNTIL THE FIRST "OIL SHOCK"

An unprecedented expansion in world trade occurred in the first three decades after the Second World War. Until 1973, trade volume expanded at an annual rate in excess of 7 percent, well above the 5 percent rate of growth of world production. Even in comparison with the extension of commerce during the liberal nineteenth century, this rate of growth of trade was impressive. The results are still more remarkable in contrast with the interwar period, when slow income growth in the industrialized countries was associated with an even smaller increase of international trade.

Early Postwar Trade Expansion Concentrated Among OECD Countries
The classical prewar division of labor between North and South, with the latter exchanging raw materials for manufactures from the former, did not fully resume after the Second World War. Industrial countries did export manufactures, but much more intensively among themselves, and intra-OECD trade greatly expanded as recovery from the war soon evolved into sustained growth in Western Europe and Japan. The United States encouraged the formation of a common market in Western Europe, despite its discriminatory features, and sponsored the claims of Japan as a bona fide member of the industrial "club." By the end of the 1950s currency convertability became universal among industrial countries and completed the transition to a productive and dynamic interdependence.

Developing countries marched to a different drummer. Many were reluctant to trust an international economy that had proved so unreliable during the Great Depression. Instead, a number of them, especially the higher income ones, emphasized industrialization based upon domestic substitution for imports from the United States and Europe. That development strategy stressed investment in national manufacturing capacity, relying everywhere on strong public participation and financial incentives. It meant high protective barriers for industry to reserve the domestic market. By attracting resources to the industrial sector and internal markets, that strategy discouraged primary production for export, and the share of developing countries in primary exports declined perceptibly.* Those national priorities were reinforced by adverse price trends for

*Unless otherwise stated, fuels are excluded from primary exports.
primary commodities. Despite the slower growth of exports of primary products relative to trade in manufactures, the prices of such products declined relative to industrial products after the Korean War boom and throughout the 1950s and early 1960s. Oil-importing developing countries increased their volume of exports by 5 percent a year between 1955 and 1963, but the real purchasing power of these exports increased by only 2 percent per year. The choice of import substitution policies was not independent of market conditions.

North-South trade issues in that environment were predictable. Developing countries emphasized the need to regulate the international market for primary commodities in order to achieve higher and less irregular prices for their exports. They stressed their need for larger financial inflows on favorable terms to cover the balance of payments deficits arising from the import requirements of rapid growth and industrialization, which exceeded stagnant export revenues. Developing countries argued for preferential access for their still limited exports of manufactures which could not compete on equal terms with those from the much more technologically advanced industrial countries. The first United Nations Conference on Trade and Development (UNCTAD) was held in Geneva in 1964 to press forward on these issues. They were familiar from the Latin American dialogue with the United States in the 1950s.

Transition for Developing Countries in the 1960s
Even as the member states of the United Nations began to meet regularly to take up this agenda, organized into developing and developed country blocs, trading relations between the North and South were showing important change. During the 1960s and early 1970s the continuing rapid growth of the industrial countries translated into more favorable export opportunities for the developing countries. Demand for primary commodities increased more rapidly than it had in the 1950s, while the terms of trade of developing countries stabilized. In addition, many developing countries for the first time attained the capacity to export industrial products. The very rapid and unanticipated growth of these exports—their value increased at an average annual rate of 19 percent between 1963 and 1973—meant that in the latter year exports of manufactures already added up to about two-fifths of total developing country sales abroad (excluding petroleum).

This transition to more rapidly growing trade in the 1960s for developing countries rested both on favorable aspects of the international environment and on national policies in the South that no longer discriminated against exports.

Among aspects of the international environment, the progressively more liberal trade regime and lowered protective barriers in industrialized countries played an important role. Immediately after World War II, the principal trading nations had worked to establish a multilateral cooperative framework that could prevent a return to the “beggar-thy-neighbor” policies of the Depression.
Although the original charter of the proposed International Trade Organization (1948) was never ratified, the initial commitment to liberalization was sustained through the General Agreement on Tariffs and Trade (GATT). Its principles of non-discrimination and reciprocity governed early tariff reduction negotiations—conducted on a bilateral, item-by-item basis, with lower tariffs then generalized to all countries, signatories or not. Quantitative restrictions that had proliferated in the 1930s were phased out during the 1950s in the conducive climate of rapid trade growth, underwritten by U.S. current account surpluses and capital outflows. In the 1960s the Kennedy Round of trade negotiations further cut tariff levels across-the-board by almost half, the most successful exercise in liberalization yet undertaken, and the first under a new multilateral procedure.

By the 1960s the sizable international flows of long-term capital and of technology had begun to have a cumulative impact on the growth rate of industry in developed and developing countries alike. Private direct investment from the United States, through the medium of the transnational corporation, was entering the European countries in unprecedented amounts (while the Japanese contented themselves with technological rather than capital transfers). This direct investment had dual implications for developing countries. First, it contributed to accelerating trade in manufactures among the industrial countries as intra-firm transactions became international. This meant more demand for raw materials that developing countries could supply, which helped export earnings. Second, some of that investment spilled over to the developing world as well, bringing advanced technology and contributing to the successful transition of a number of countries to export of industrial consumer goods.

These liberal features of the international trading system were complemented by a stable framework of fixed exchange rates that further encouraged a growing volume of transnational transactions. At least until the late 1960s, under United States hegemony, there was limited policy competition among the industrial countries and rather considerable latitude for developing countries to pursue more aggressive commercial policies.

In these favorable circumstances, clouded only by the exceptional treatment of cotton textiles, a number of developing countries took measures to increase their participation in world trade. They altered their development strategies in the early 1960s to begin to exploit the rapidly expanding world market as they had not done earlier. New agricultural and mineral exports were encouraged. Prior investments in industry to satisfy domestic demand and substitute for imports now also produced for export under policy regimes that made sales abroad more attractive. Such opportunities, and responses, were not distributed uniformly among developing countries. Some countries found themselves specialized in primary commodities for which demand was not buoyant; the poorer of these lacked the capacity for internal transformation to other products.
Others, like India, that had exported manufactures, continued to concentrate upon the domestic market and neglected the foreign. Still others pursued very aggressive export-oriented policies, and specialized in the new possibilities for trade in manufactures. Among these, several East Asian economies stand out. South Korea, Singapore and Taiwan increased their share in the rising total of developing country exports of manufactures from 14 to 34 percent between 1963 and 1973.\textsuperscript{5}

In general, there was an association between higher exports and improved growth performance during this period. For a sample of 28 developing countries, the simple correlation between changes in product growth and increases in export volume between 1960-65 and 1965-73 was +0.62. The divergent experience of the lower income developing countries also stands out. Purchasing power of their exports increased at a rate of only 3.6 percent a year between 1965 and 1973, and their per capita product at only 0.9 percent. For the middle and higher income countries, the corresponding results were 7.5 percent and 3.2 percent.\textsuperscript{6}

One must be careful, of course, not to overemphasize the independent effect of exports. Export growth is associated with other characteristics of successful economic transformation. More sophisticated analyses including other factors contributing to product growth find a smaller and sometimes statistically insignificant export impact. There seems to be no uniform response in different country experiences. The sensitivity of the results to the particular countries included and the time period covered is clear from the divergent conclusions of investigators.\textsuperscript{7}

The conclusion remains valid, however, that the external market by the mid-1960s offered an opportunity for many countries to accelerate their growth, an opportunity more available to some than to others. Those same countries that integrated into international product markets received an additional stimulus from access to new resources at the end of the 1960s: private, medium-term bank loans from the Eurocurrency market. These credits helped to finance the imports of intermediate and capital goods that rapid expansion necessitated. This differential access to capital markets further widened the gap within the South, and conditioned the potential range of responses to the different and more difficult international environment that followed.

**Floating Exchange Rates, Trade Conflicts, Inflation**

By the end of the 1960s, the rapid expansion and differentiation of the world economy had produced some visible strains. Many of the emerging monetary and trade issues principally involved the industrial countries, but with indirect consequences for the developing.

The Smithsonian devaluation of the dollar in 1971, after a United States surcharge on imports and threatened additional trade restrictions, could not
save the fixed exchange rate system. It met its demise by early 1973. Divergent domestic policies and productivity experiences could no longer be reconciled by dollar financing of United States deficits. Floating rates promised a greater insulation from external impulses and therefore a preferable means of adjustment.

There were increasing cases of trade conflict among the industrial countries as their economies became more interlinked. The Long-Term Arrangement on Cotton Textiles, signed in 1962, had its origin in the 1957 voluntary export restraint agreement on textiles between Japan and the United States. In 1969, the United States, Japan, and the European Community concluded a tripartite agreement limiting exports of steel to the United States. In 1972, it was the turn of the EEC to restrict steel exports from Japan. Protectionist concerns had begun to emerge in some other sectors like foot wear and ball bearings. These stirrings of protectionism in manufactures did not yet much influence developing countries, who remained marginal suppliers of such products. Most threatening were the increasing limitations on trade in textiles and clothing.

Inflationary pressures began to mount in the industrialized countries in the early 1970s, and initially evoked slower real growth in 1970 and 1971 as more restrictive policies were applied. Reduced investment in the North brought a surplus of loanable funds into the new Eurocurrency market which became increasingly available to developing economies as noted above. Resumption of rapid growth in 1972 and 1973 was marked by considerable speculation and a surge in commodity prices. Exporters of raw materials, among them many developing countries, were rewarded with much improved terms of trade and capacity to import.

Against this backdrop of improved developing country performance, limited progress was achieved in the series of UNCTAD negotiations. The industrialized countries acceded to a temporary concession of preferences to developing country producers of manufactures. Various national schemes differed, however. Some did not go into effect immediately; and all excluded sensitive products. No agreement was reached on commodity trade, although in some instances—coffee, most prominently—specific arrangements had been concluded involving producing and consuming nations. Public development assistance did increase, both bilateral flows and those under the multilateral auspices of the World Bank and new regional institutions, and was increasingly directed to the poorer countries excluded from access to private capital markets.

B. THE POST-1973 SITUATION

The rise in oil prices in 1973 and 1974 radically altered the prospects for the international economy. It added to the troublesome inflationary pressures already evident in the industrialized countries; the ensuing recession was ag-
gravitated by continuing price uncertainties and the need for structural adjustment to higher priced petroleum. Higher costs for oil plagued the oil-importing developing countries with even more serious consequences for price stability and external equilibrium.

Faced with the need for additional foreign exchange to pay for oil, individual countries could choose among four different responses: compression of non-oil imports, increased export earnings, increased indebtedness, or slower aggregate growth to reduce demand for all imports. For the world as a whole, however, the surplus being accumulated by the oil producers had to be offset by deficits elsewhere in the international economy. All oil-importing countries could not be in balance. Unless the petro-dollars were recycled to willing users, the global economy faced a prospective lack of aggregate demand. Not since the Great Depression had the threat of another massive breakdown in the international economy been so real.

The oil-importing developing countries, because they generally opted for sustaining their higher rates of growth, largely followed a strategy of gradual adjustment by increasing their external debt. They are the only group of countries since 1974 in continuous current account deficit. Many thus became the balancing debtors in the new circular flow of international finance that the private banking system largely intermediated. All developing countries could not simultaneously count on an export solution in the face of industrial country recession and curtailed demand. After an average annual increase of almost 7 percent in industrial country non-fuel imports from developing countries in the previous decade, the volume of these imports declined by 5.4 percent per year in 1974 and 1975.8 The annual deficits on current account of the oil-importing developing countries immediately escalated to about $40 billion in those years. In 1975-80, they borrowed some $200 billion—more than half from private banks—in order to cover their external deficits.9

This resort to debt in unprecedented amounts translated into greater demand for the exports of the industrial countries. Some estimates based on econometric models suggest that the continuing imports of these developing countries added half a percentage point to the annual growth rate of the developed during the 1974-75 recession, “as much as, say, a rigorous German demand expansion.”10 That is a measure of how important they were becoming as markets for the industrial countries.

Deficits and debt of this magnitude—now about $350 billion and with the largest part owed by the more advanced developing countries—also impelled redoubled efforts by these countries to expand their exports of manufactures. Aided and encouraged by policies of export promotion, the volume of industrial products sold abroad managed to increase by a third between 1973 and 1976 despite the intervening recession and downturn in aggregate trade. This momentum has since somewhat slowed as the rate of increase in the volume of
world trade has settled at lower levels. Still, the volume of developing country exports of manufactures expanded more than 8 percent per year in 1977-79, compared to world aggregate increases of manufacturing exports of about 5 percent. Results in 1980 and 1981 confront a further slowing in world trade growth.

The debt problem—the adequacy of resource transfers to permit continuing developing country growth—has become a trade problem as well. In the short run, rapid export growth from developing countries is needed to facilitate further extension of credit from private sources. Creditworthiness depends in good part on trade performance. Continuing large flows of credit in turn are necessary to permit the domestic growth and increase in productive capacity that permits greater exports. That is the lesson of the years since 1973, when generous finance has permitted adjustment to the oil price increases with less impact on the growth and international trade of the developing countries than on the industrialized.

In the longer run, of course, it is only by continuing high export growth and eventual trade surpluses that the developing countries can begin to repay their accumulated deficits. The present level of debt inherently requires a continuing strategy of outward-oriented growth on the part of the developing countries. Not surprisingly, the list of principal Third World debtors includes a number of the countries which were most prominent in increasing their industrial exports: Brazil, Mexico, and South Korea are three that stand out.

The post-1973 situation, although characterized by a patently less favorable external environment, paradoxically impels many of the middle and higher income countries of the South to accelerate their industrialization efforts, and to promote even more vigorously their exports of manufactures. Primary commodities, in the wake of slowing and cyclical industrial demand in the North, cannot be relied upon to earn the necessary foreign exchange. Some countries will continue to find good markets for their primary commodity exports, and can diversify into new products, but prospects for manufactured products are generally better.

The recycled petro-dollars that financed imports in such volume after the first “oil shock” of 1973 are less certain sources of relief after the second oil shock of 1979. Banks are more cautious because the developing countries start now with much higher levels of debt than in 1973. Each dollar of new debt now contracted also represents a much smaller real transfer of resources since much of it must go to cover rising interest costs and amortization of old loans.

Trade has thus become even more vital to the short-term development prospects of many developing countries. From an engine of growth for some in the 1960s and early 1970s it has now become a potential means of survival during the “dangerous decade” of the 1980s. The inexorable long-term trend toward relocation of the world’s manufacturing capacity now manifests itself against a
backdrop of inflation and recession in industrialized countries. It takes place in an environment of unprecedented indebtedness. It also appears in the context of a new protectionism whose extent and potential impact we subsequently discuss. North-South trade issues will inevitably come to command increasing attention. The possible solution seen by Sir W. Arthur Lewis in his Nobel Prize address—expanded trade among developing countries—may not carry all of the burden. It is best to begin, at least, by more careful examination and projection of the North-South axis.
III. THE DIMENSIONS OF NORTH-SOUTH TRADE INTERDEPENDENCE

Many observers are imperfectly informed about the trade patterns between North and South. Fact and fiction sometimes blend in proportions that vary with the degree of self-interest. The penetration of cheap imports of manufactures from developing countries is frequently exaggerated by workers and employers subject to competitive pressures. The reciprocal flow of exports of capital goods and intermediate products is not often commented upon, a flow so large that developing countries have had to go into substantial debt to finance it. Statements abound about the jobs lost to the unfair competition of cheap labor abroad working with foreign capital, without much discussion about the jobs created by a favorable Northern balance of trade in manufactures.

The first three parts of this chapter therefore seek to place these aspects of North-South trade in their proper perspective. A final part is more future- and policy-oriented and brings together projections of how production and trade in manufactures may evolve over the next 20 years. Such projections obviously depend upon assumptions about economic performance and policy constraints. Projecting the implications of a variety of assumptions makes it easier to see how attitudes toward trade can shape the outcome, and helps quantify the degree of future competition industrial countries will confront.

A. DEVELOPING COUNTRY EXPORTS OF MANUFACTURES

The oil-importing developing countries’ share in total international trade has actually fallen significantly since 1950, as indicated in Table 1. They were responsible for 29 percent of world exports in 1950, and only 15 percent in 1979. This slower growth of exports from the South since 1950 is the result of two principal trends: One is the decline in the share of world primary exports provided by developing countries; the other, the diminished importance of commodity trade relative to exports of manufactures in the postwar period. The latter has been the larger quantitative influence. Even had the developing countries fully maintained their primary export markets, their share in world trade would have fallen substantially because of the large decline in the weight of primary products in total world trade.12
### TABLE 1

**Exports of Industrial and Developing Countries**

(in billions of current U.S. dollars and as percent of total world exports*)

<table>
<thead>
<tr>
<th></th>
<th>Total World Exports</th>
<th>Non-Oil Developing Countries</th>
<th>Oil-Exporting Developing Countries</th>
<th>Industrial Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>57.2</td>
<td>16.6 (29.0%)</td>
<td>4.0 (7.0%)</td>
<td>36.4 (63.6%)</td>
</tr>
<tr>
<td>1955</td>
<td>84.8</td>
<td>20.1 (23.7%)</td>
<td>5.9 (7.0%)</td>
<td>58.7 (69.2%)</td>
</tr>
<tr>
<td>1960</td>
<td>114.5</td>
<td>23.2 (20.3%)</td>
<td>7.2 (6.3%)</td>
<td>83.9 (73.3%)</td>
</tr>
<tr>
<td>1965</td>
<td>167.0</td>
<td>30.5 (18.3%)</td>
<td>10.3 (6.2%)</td>
<td>125.7 (75.3%)</td>
</tr>
<tr>
<td>1970</td>
<td>283.4</td>
<td>44.4 (15.7%)</td>
<td>17.3 (6.1%)</td>
<td>220.3 (77.7%)</td>
</tr>
<tr>
<td>1973</td>
<td>524.4</td>
<td>80.6 (15.4%)</td>
<td>39.0 (7.4%)</td>
<td>400.4 (76.4%)</td>
</tr>
<tr>
<td>1976</td>
<td>907.1</td>
<td>133.1 (14.7%)</td>
<td>132.9 (14.7%)</td>
<td>632.9 (69.8%)</td>
</tr>
<tr>
<td>1979</td>
<td>1508.2</td>
<td>227.1 (15.1%)</td>
<td>207.6 (13.8%)</td>
<td>1056.7 (70.1%)</td>
</tr>
</tbody>
</table>

*excluding COMECON countries


In the early 1970s, this downward tendency in trade participation ceased. Indeed, if it had not been for the rise in petroleum prices and the consequent greater importance of oil exports in world trade, the share of the oil-importing developing countries would have modestly increased since 1973. Primary export performance now exercises a much diminished negative role, while continuing improvement in industrial export performance exerts a positive influence. Between 1973 and 1979, participation in world exports of manufactures of these countries rose from 6.7 percent to 8.4 percent.13

Despite this rapid expansion, their market share in manufactures remains absolutely small. That would seem to provide considerable scope for expansion without confronting market barriers. However, it is not total shares, but rather more concentrated sectoral penetration that informs the resort to protectionist measures specifically directed against developing countries. It is also the rapidity of recent change. As Table 2 indicates, 60 percent of the absolute increase between 1973 and 1976 in imports of clothing by industrialized countries was supplied by developing countries; 20 percent of the absolute increase in office and telephone equipment imports; 24 percent of the household appliances increase and 27 percent of the increase in other consumer goods. In these product groups, characterized by labor-intensive production processes and standard technology, increased competition from abroad has come from developing
### TABLE 2

**Industrial Countries' Import Categories with Above-Average Growth**

(Percentages)

<table>
<thead>
<tr>
<th></th>
<th>Annual Average Rate of Growth</th>
<th>Share of Developing Countries in the Absolute Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road motor vehicles</td>
<td>23.5</td>
<td>16.3</td>
</tr>
<tr>
<td>Clothing</td>
<td>21.6</td>
<td>18.9</td>
</tr>
<tr>
<td>Office and Telephone Equipment</td>
<td>21.5</td>
<td>15.6</td>
</tr>
<tr>
<td>Household Appliances</td>
<td>20.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Other Consumer Goods</td>
<td>19.7</td>
<td>14.6</td>
</tr>
<tr>
<td>Other Semi-Manufactures</td>
<td>18.7</td>
<td>—</td>
</tr>
<tr>
<td>Power-Generating Machinery</td>
<td>18.3</td>
<td>—</td>
</tr>
<tr>
<td>Chemicals</td>
<td>—</td>
<td>19.0</td>
</tr>
<tr>
<td>Other Engineering Products</td>
<td>—</td>
<td>15.9</td>
</tr>
<tr>
<td>ALL MANUFACTURES</td>
<td>17.9</td>
<td>14.4</td>
</tr>
</tbody>
</table>

— signifies less than average growth in specified time periods.

Sources: Richard Blackhurst, Nicolas Marian, and Jan Tumlir, *Adjustment, Trade and Growth in Developed and Developing Countries*, GATT Studies in International Trade, No. 6 (Geneva: GATT, 1978), Table 19; and GATT, *International Trade, 1979/80*, Table A21. The sectoral categorizations in 1975-79 have been adjusted to correspond to the classification used in the source for the two earlier periods. In calculating the 1975-79 share of developing countries in the absolute increase of imports of manufactures into industrial countries, the share supplied by oil-exporting countries is excluded from the sectoral figures but included in the figure for all manufactures, increasing it to 11.3% from 10.9%. Since the oil-exporters represent such a small part of the developing country share of the increase for all manufactures, their exclusion from the sectoral figures is of minor importance.
countries to a palpable extent. In each of these four categories, the share of developing countries increased much more than their participation in total imports of manufactures. Specialized advantage has been successfully pursued.

But as Table 2 also reveals, two of these categories—clothing and household appliances—have experienced a slowing of growth relative to imports of manufactures as a whole in the more recent 1975-79 period; and in those two as well as other consumer goods, the incremental share of developing countries has fallen off relative to the 1973-76 period. Both circumstances have added up to a smaller aggregate participation of developing countries in the increase of imports of manufactures by industrial countries in 1975-79 than in 1973-76. Indeed for 1978 and 1979 their share of the increase is just about back where it was in 1963-73. Preliminary indications suggest that 1980 was not dissimilar.

The deceleration evidenced by these most recent data emphasize the importance of trade diversification. Developing countries have taken heed. Exports from the most advanced now include a wider variety of manufactures. Their engineering sectors look to an external as well as an internal market, and exports are no longer a matter of semi-processed products. Among the developing countries a hierarchy of exporters seems to be taking shape. The so-called newly industrializing countries (NICs) are abandoning textiles and other labor-intensive and slower-growing product groups in favor of more sophisticated products. Other developing countries with lower incomes and less advanced industrial sectors are replacing the NICs in some of these products. This model is not new. It has already been pioneered by Japan.

Bela Balassa has especially emphasized this "stage" approach. In one of his more recent publications, he notes: "Compared to the other non-OPEC developing countries, the newly-industrializing countries tend to export relatively skill-intensive commodities. They have a high export share in engineering products (83 percent) that have higher skill intensity than any other commodity category. Within the engineering group, household appliances with a 95 percent export share of the newly-industrializing countries are the most skill intensive. The export share...is the lowest in textiles (55 percent) that have low skill intensity." Yet the theory is not perfect: The clothing share of the NICs is also above average despite lowest capital costs, and the share of office and telecommunications equipment, with higher skill requirements, is only equal to the average.

However diversification proceeds, moreover, labor-intensive products will remain an important domain for some developing country exporters. This specialization helps to explain some of the concern and policy reaction of industrial countries even while total market shares have remained limited. When we move from trade shares to import penetration ratios, calculated in relation to consumption in the industrial countries, this impression is strengthened.
TABLE 3
RATIO OF IMPORTS FROM DEVELOPING COUNTRIES TO APPARENT
CONSUMPTION IN INDUSTRIAL COUNTRIES
(Percentages)

<table>
<thead>
<tr>
<th></th>
<th>1959-60</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>1.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Clothing</td>
<td>1.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Wood Products, Paper and Printed Matter</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Machinery and Other Manufactured Goods</td>
<td>0.1</td>
<td>1.2</td>
</tr>
<tr>
<td>ALL MANUFACTURES</td>
<td>1.2</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Richard Blackhurst, Nicolas Marian, and Jan Tumlin, Adjustment, Trade and Growth in Developed and Developing Countries, GATT Studies in International Trade, No. 6 (Geneva: GATT, 1978), Table 22.

Despite the difficulties in theoretical interpretation (and practical calculation because imports and domestic production are frequently of different quality), it is useful to know that the ratio of imports from developing countries to apparent consumption of all manufactures in industrial countries has only risen from 1.2 to 2.0 percent between 1959-60 and 1975. Table 3 further shows that import penetration even of clothing amounted to only 8.6 percent of the value of consumption in 1975. More careful study of the apparel sector confirms such an order of magnitude in the principal industrial countries, but correctly qualifies that “they are presumably much higher in each market in the particular products in which developing countries have been most successful.” Good examples are the total imports (in physical units) into the United States in 1977 of 49 percent of American consumption of sweaters, 39 percent of women’s blouses and 36 percent of women’s coats; while in the EEC, imports captured 60 percent of the market for men’s woven shirts and 49 percent of that for women’s blouses. Other recent estimates by William Cline confirm that “in the aggregate import penetration by manufactures from developing countries is extremely limited. However, penetration is high in a number of individual products.” It is the latter that explains the growing attention to developing country competition.

A principal conclusion, therefore, is that exports of manufactures from the developing countries to the industrialized countries should not be exaggerated in importance. Neither their aggregate level, nor their recent shares, are very
great. This is not to imply that serious problems have not been created in the sectors and countries that have most felt the consequences of heightened international competition. Nor is it to advocate complacency in the face of real costs of readjustments, human as well as financial. Rather, we call attention to this still limited level of penetration to prevent developing countries from becoming the scapegoats for the poor economic performance in Trilateral countries in recent years. Increased imports of manufactures from developing countries are not the cause of the recent slowdown in growth in the developed countries, nor (with the sole exception of clothing) are developing countries even the principal source of import competition. Intra-OECD trade continues to dominate. Behind much of the talk about the destabilizing role of developing country imports is underlying concern about larger Japanese exports. Recently, in the cases of steel and automobiles, that concern has become overt.

Two other characteristics of developing country industrial exports help to set the appropriate policy context: their skewed distribution among the major industrial regions and their current concentration in a relatively small number of developing country suppliers. Both are important in understanding the potential and limits of North-South trade in manufactures.

Table 4 assembles information on the levels and trends of import penetration in the principal industrial markets. It decomposes the developing country penetration ratio into two multiplicative components: the share of imports from all sources in consumption of manufactures or in gross product; and the share of developing country imports in total imports. To enhance comparability of these different regions, intra-zonal trade (i.e. within Western Europe and within North America) has been excluded.

Three conclusions can be drawn from the data. One is the roughly comparable level of the 1979 share of developing country imports in total imports of manufactures in all three markets (M_{pc}/M), ranging from 21 percent in Europe to 28 percent in North America. European acceptance of developing country imports has, however, increased notably more slowly than in North America and Japan. From the highest share in 1963, Europe had fallen to the smallest share by 1979, in part as a conscious defense against developing country competition.

A second conclusion is the greater differential receptivity of these markets to imports of manufactures as a whole: Europe ranks first, followed by North America, with Japan last. Here impressions are especially sensitive to what ratio one calculates: If GDP is the denominator, Japan is not only absolutely low in 1979, but also evidences slower import than GDP growth between 1973 and 1979; if consumption of manufactures is the denominator, thereby also netting out Japan's large export surplus, the results are less dramatically different from the other regions. But independently of measure, the laggard position of Japan seems well established.
<table>
<thead>
<tr>
<th>Region</th>
<th>1963</th>
<th>1973</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$M_{LDC}/M$</td>
<td>11.0</td>
<td>21.0</td>
<td>28.0</td>
</tr>
<tr>
<td>$M/\text{Consumption}$</td>
<td>2.3</td>
<td>5.0</td>
<td>6.2</td>
</tr>
<tr>
<td>$M_{LDC}/\text{Consumption}$</td>
<td>0.3</td>
<td>1.1</td>
<td>1.7</td>
</tr>
<tr>
<td>$M/\text{GDP}$</td>
<td>1.1</td>
<td>2.6</td>
<td>3.6</td>
</tr>
<tr>
<td>$M_{LDC}/\text{GDP}$</td>
<td>0.1</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Western Europe</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$M_{LDC}/M$</td>
<td>13.0</td>
<td>17.0</td>
<td>21.0</td>
</tr>
<tr>
<td>$M/\text{Consumption}$</td>
<td>2.9</td>
<td>5.5</td>
<td>9.3</td>
</tr>
<tr>
<td>$M_{LDC}/\text{Consumption}$</td>
<td>0.4</td>
<td>0.9</td>
<td>2.0</td>
</tr>
<tr>
<td>$M/\text{GDP}$</td>
<td>1.9</td>
<td>2.8</td>
<td>3.9</td>
</tr>
<tr>
<td>$M_{LDC}/\text{GDP}$</td>
<td>0.2</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$M_{LDC}/M$</td>
<td>7.0</td>
<td>22.0</td>
<td>25.0</td>
</tr>
<tr>
<td>$M/\text{Consumption}$</td>
<td>2.2</td>
<td>3.6</td>
<td>4.7</td>
</tr>
<tr>
<td>$M_{LDC}/\text{Consumption}$</td>
<td>0.2</td>
<td>0.8</td>
<td>1.2</td>
</tr>
<tr>
<td>$M/\text{GDP}$</td>
<td>2.1</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>$M_{LDC}/\text{GDP}$</td>
<td>0.1</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Industrial Countries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$M_{LDC}/M$</td>
<td>11.0</td>
<td>20.0</td>
<td>24.0</td>
</tr>
<tr>
<td>$M/\text{Consumption}$</td>
<td>2.5</td>
<td>4.9</td>
<td>7.1</td>
</tr>
<tr>
<td>$M_{LDC}/\text{Consumption}$</td>
<td>0.3</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>$M/\text{GDP}$</td>
<td>1.5</td>
<td>2.6</td>
<td>3.5</td>
</tr>
<tr>
<td>$M_{LDC}/\text{GDP}$</td>
<td>0.2</td>
<td>0.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>

$M =$ total imports of manufactures

$M_{LDC} =$ imports of manufactures from developing countries

*excludes intra-zonal trade

EEC plus EFTA

Sources: See Appendix
Another way to see this is the following: Between 1963 and 1973 Japan's import growth was 35 percent greater than expanding world trade in manufactures (excluding intra-zonal trade). Between 1973 and 1979 it was 17 percent less despite strong economic performance. By contrast the increased trade orientation of the North American economy, combined with diminished competitiveness that permitted imports a stronger domestic market position, sustained demand for foreign products after 1973. In the case of Europe, there was also rapid growth of imports; the success of the West German economy, and its liberal policies, are reflected in the data. Indeed, Europe alone among the three markets experienced an above average growth of imports of manufactures relative to consumption after 1973. Relative to gross product, European imports increased to about the same extent as those into North America.

A third conclusion, building on the first two, relates to the share of developing country exports of manufactures relative to industrial country potential demand (M_{LDC}/Consumption). The growth of M_{LDC}/M and M/Consumption have each contributed to the much larger developing country share observed in 1979 than in 1963. The slowing of each of these two components after 1973 in all areas contributes to the slower increase in developing country import penetration, experienced most notably in the case of Japan. Developing country exports have depended for their success on a growing openness to imports in industrial country markets as well as on a rising market share. Indeed, had the imports to consumption ratio remained at its 1973 level in the industrial economies, developing country exports of manufactures to the North would have increased only by a third of the gain actually experienced.

Of course these developments are not independent of each other: The aggregate import ratio rises because some products from developing countries are imported in much larger quantities than before. In this respect, industrial country markets again differ. The United States in 1979 was the most diversified importer from developing countries: 23 percent of U.S. imports of manufactures from developing countries consisted of textiles and clothing, and another 40 percent consisted of engineering products of different types. Canada's imports were more heavily textiles and clothing: 33 percent. At an extreme was Japan with 36 percent of imports in textiles and clothing and 18 percent in engineering products. Western Europe displayed an equal emphasis on imports of textiles and clothing, but a larger (26 percent) proportion of engineering products.¹⁹

This differential acceptance of a broad range of developing country imports carries over when we relate the composition of imports to the structure of consumption. Table 5, borrowed from William Cline's useful research on the subject, presents average and median developing country import penetration ratios for a wide range of sectors calculated for 7 industrial countries in 19756. The medians, reflecting the distribution of import penetration ratios across a
TABLE 5  
INDICATORS OF OVERALL MARKET PENETRATION BY MANUFACTURED PRODUCTS FROM DEVELOPING COUNTRIES FOR SEVEN INDUSTRIAL COUNTRIES, 1976  
(percentages)

<table>
<thead>
<tr>
<th>Country</th>
<th>Import Penetration Ratios (4 digit ISIC)</th>
<th>Ratio of Median to Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>Median</td>
</tr>
<tr>
<td>United States</td>
<td>2.24</td>
<td>0.85</td>
</tr>
<tr>
<td>Canada</td>
<td>1.61</td>
<td>0.77</td>
</tr>
<tr>
<td>Japan</td>
<td>2.43</td>
<td>0.74</td>
</tr>
<tr>
<td>France</td>
<td>1.89</td>
<td>0.38</td>
</tr>
<tr>
<td>Germany</td>
<td>2.40</td>
<td>0.65</td>
</tr>
<tr>
<td>Italy</td>
<td>2.53</td>
<td>0.49</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.88</td>
<td>0.98</td>
</tr>
</tbody>
</table>

*weighted by sectoral gross output


The number of sectors, vary among countries more than the averages. Developing country import competition restricted to a few sectors would yield a low ratio of the median to the average; broad competitiveness, a high ratio. Canada, the United States and the United Kingdom have the highest ratios. Developing country imports are more specialized, by this measure, than overall imports; thus the ratio for the United States was .70 for all imports of manufactures, compared to .38 for imports from developing countries.

Where there is breadth as well as a high average import penetration, as for the United Kingdom and the United States, this signals a potential protectionist response against developing country exporters. Cline, in fact, extends his analysis to consider overall import competition in the United States and its implications for developing country prospects. He concludes that “for only approximately one-fourth of U.S. import value is the import penetration, total and from developing countries alone, sufficiently low that increased future penetration should be relatively unhindered. For approximately one-third of the import market prospects are poorer because overall import penetration is already high (over 10 percent) even though penetration from developing countries is not. In this grouping, however, developing countries might be able to raise their market share at the expense of industrial countries supplying the U.S. market.”
To this discussion of developing country import competition by market and by product must be added the additional dimension of source. Here the principal conclusion is the dominance of a few developing country exporters. The leading role of the East Asian middle income countries has by now become well known. Sometimes they are referred to, only half jocularly, as the Gang of Four. Hong Kong, South Korea, Singapore and Taiwan accounted for more than 60 percent of all developing country exports of manufactures in 1976. Their current position is not much different. These countries have very open economies and have become fully integrated into the world economy. Exports regulate their economies and their domestic policies are influenced accordingly. Their performance since 1960 has been little short of spectacular—a growth in exports of manufactures ranging from in excess of 30 percent a year for South Korea to almost 7 percent a year for Singapore. In the last several years they have succeeded in sustaining export volume despite global recession.

In a second category are the three large Latin American economies: Brazil, Mexico and Argentina. They are perhaps more noteworthy for their large industrial sectors among developing countries and their export potential than their current exports of manufactures. While they account for five times the production of manufactures as the Asian economies, their exports amounted to less than a fifth as much in 1979 (Table 6). The policies of these Latin American countries, while starting from import substitution in the 1950s, have evolved in the last decade to greater emphasis on exports, particularly of manufactures. Such a transition has proceeded farthest for Brazil, ranking it just behind Singapore in the absolute size of its exports. Continuing inconsistency in Argentine economic performance and the new importance of petroleum exports in Mexico have meant little dynamism in these countries’ exports of manufactures in recent years.

India belongs in a related group by virtue of its size. Its industrial production is about equal to the Far Eastern NICs, but with exports of manufactures that are less than those of Singapore. From the leading position among developing country exporters of manufactures in 1963, India has fallen progressively behind. It has failed to exploit its trade potential. Pakistan is a similar case.

A fourth grouping includes other, and smaller, countries that have experienced rapid growth of exports of manufactures in the last decade. They include, among others, Malaysia, Thailand, the Philippines, the Ivory Coast, Tunisia, Morocco, Colombia, Chile and Uruguay. While none individually accounts for a very large percentage of total trade, these exporters are evidence of the diffusion of the new pro-trade perspective in the developing world as a whole, and of the dispersion of industrial capacity as well.

Table 6 quantifies the exports of manufactures for this hierarchical structure. The obvious concentration of exports among a handful of countries—eight NICs (including here the large Latin American economies and India) account
TABLE 6
EXPORTS OF MANUFACTURES*:
NICs AND OTHER DEVELOPING COUNTRIES, 1979
(million U.S. dollars)

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount (in millions of US$)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asian NICs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>14,061</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>13,424</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>13,960&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>6,385</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47,830 (61%)</td>
<td></td>
</tr>
<tr>
<td>Latin American Large Economy NICs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>5,732</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>1,664&lt;sup&gt;c,d&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>1,772&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,168 (12%)</td>
<td></td>
</tr>
<tr>
<td>South Asian Large Economies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>3,519&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>1,148</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,667 (6%)</td>
<td></td>
</tr>
<tr>
<td>Selected Second-Tier Exporters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,954</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>950&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>1,206&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>753&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>447&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>349</td>
<td></td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>168&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>427&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td>672&lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,962 (9%)</td>
<td></td>
</tr>
<tr>
<td>Other Developing Countries</td>
<td>10,309 (12%)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>78,900 (100%)</td>
<td></td>
</tr>
</tbody>
</table>

* SITC 5 through 8, excluding 68 (non-ferrous metals).
<sup>b</sup> includes re-exports.
<sup>c</sup> estimated from export structure of previous years and total 1979 exports.
<sup>d</sup> excludes border assembly activities which yielded net revenue of more than $1 billion in 1979.

for 77 percent—raises a key question. Is the issue of manufactured exports from the South fundamentally a matter of only a handful of countries, the NICs? Or is it a broader concern, requiring accommodation to a generalized increase in manufacturing capacity in the Third World? Answers to these questions are essential to projecting future export pressures and to designing policy responses.

For the short term, matters will stay substantially as they are. The present NICs—perhaps with an addition or two—will continue to add up to about three-fourths of developing country exports of manufactures. An established market position will make it easier to diversify into new and more dynamic lines of production even while dominating the old. In uncertain times, moreover, with slower rates of trade growth envisaged, new developing country competitors will be less eager to dispute market shares by opting for more outward-oriented development.

But that assessment may not last out the decade, let alone the century. The very rapid growth of exports of the East Asian NICs has brought production for the foreign market to very high proportions of total economic activity in these economies. Hong Kong and Singapore already substantially process imports for subsequent export. Increases in the share of exports in GDP for South Korea and Taiwan imply proportionally increased imports as domestic inputs no longer in excess supply are diverted to satisfy external demand. At the margin, a greater trade orientation competes on progressively less favorable terms with policies of self-sufficiency in foodstuffs and other manufactures. It is not reasonable to extrapolate past trends. As the share of exports approaches constancy, the growth of exports of manufactures will converge to the lower limits set by the expansion of the industrial labor force and productivity growth. Already there is evidence of declining rates of export increase in recent years in these countries, with the exception of Singapore, whose average growth has been lowest and whose share seems to have stabilized.

Other NICs, like Brazil, Mexico, Argentina and India, have greater margins to increase supply. At least the first three also have incentive to do so because of the need to service relatively large debts. Less than fully utilized resources also make it possible to divert production for sale abroad without proportional reduction of domestic supply. Because these are relatively large economies, however, the scope for gains from specialization, and hence the incentive for more intensive trade, begin to diminish earlier on. For these reasons it is possible to project a moderately increasing export/production ratio for this group, but not continuous real rates of growth of exports in double digits.

Non-NICs will begin to make significant inroads only if they are able to grow at such double-digit levels. The arithmetic is clear: At a rate of growth of exports of 8 percent for the eight NICs, it will take a rate of 14 percent for others to achieve an equal share of developing country exports of manufactures by the
year 2000. The possibility of achieving such a high rate of export expansion will not only depend upon domestic supply capabilities, but also industrial country demand. Reduced trade growth will influence the distribution of developing country supply. If the NICs are differentially restricted, as currently seems the intent of policy, it will obviously favor the possibilities for others to substitute. Then the share of the NICs will decline more rapidly. If all developing countries face comparable restrictions, the NICs may be able even to increase their advantage because of the trade bias imparted by their generally larger debt.

We conclude by emphasizing two points. One is that many more middle income countries have begun exporting manufactures in recent years, and at a rate that, between 1976 and 1979, has been about as rapid as that of the NICs. Some have grown more rapidly. The emergence of the second-tier exporters of Table 6 is evidence of this. In the second place, a policy oriented only toward the NICs is unlikely to prove adequate. Policies that consciously discriminate against them will evoke a substitution from other sources in relatively short order, shifting the locus of the competition but not doing away with it. Policies that implicitly favor them by generalized restrictions on developing country exports forfeit the positive role that a small absolute, but large relative, export of manufactures can play in the development experience of many different smaller countries. A recent World Bank study identified 22 such second-tier countries. Although the NICs now represent almost half of developing country industrial production, an adequate trade and development strategy of the industrial countries cannot ignore the others.

In short, the appropriate objective is not the co-opting and taming of a handful of countries. Such a policy would not yield the intended results. It would also promote special arrangements between individual industrial countries and particular NICs—Japan and South Korea, say, or the United States and Mexico. A network of bilateral negotiations might end up reducing North-South trade rather than sustaining it, not to mention increasing tensions among the industrial countries themselves. The developed countries are better advised to recognize and adapt to changes in the industrial capacity and potential exports of manufactures in the developing world as a whole.

B. DEVELOPING COUNTRY IMPORTS OF MANUFACTURES

Developing countries, despite their recent impressive growth in exports of manufactures, remain much larger buyers than sellers. This is especially true if the oil-exporting countries are included. OPEC countries add substantially to industrial demand but little to supply. In 1979 imports of manufactures from industrialized countries by all developing countries exceeded exports of manufactures to industrialized countries by a factor of 3.5. Although that ratio will
probably fall in the future, developing countries are a much more rapidly growing market for the industrial countries than the OECD bloc itself. In the interval between 1973 and 1979 more than one fourth of the increase in industrial country exports of manufactures was purchased by developing countries; in the decade ending in 1973 the comparable share was about one-sixth.\textsuperscript{23}

The much larger share of the increase in 1973-79 is mostly a reflection of the purchasing power transferred to the OPEC countries after 1973.* Just as impressive, however, under the adverse circumstances, is the continuing absorptive capacity of the oil-importing developing countries since 1973. The growth rates of their economies, while adversely affected by the increased price of oil, have nonetheless declined less than those of the industrial countries. They have sustained their import capacity by resort to debt, as we have seen, more than by increased exports. As a consequence, the margin between imports and exports of manufactures continues large even for this group of countries. They import more than twice the value of manufactures they export to the industrial countries, and the absolute difference has increased from $25 billion in 1973 to $69 billion in 1979.

The best developing country customers have been those with the most rapidly growing exports. They also have been the ones achieving rapid gross product growth and needing imports of capital and intermediate goods to meet their ambitious investment targets. These have also been on the whole the countries with access to capital markets and the willingness to borrow to supplement their export earnings. The Asian NICs rely in part on adding value to imported semi-manufactures, assuring a trade that proceeds in reasonably balanced fashion.

Exports of manufactures from the industrial countries to the developing countries have been as concentrated sectorally as the opposite flow. Northern exports are capital goods that are skill- and technology-intensive in contrast to the labor-intensive consumer goods imported from developing countries. Comparative advantage, and relatively large gains from trade, are evident from this disparate product composition of trade.

Developing countries as a whole (including the oil exporters), as a consequence, accounted for more than a third of the increase in industrial country exports of transport equipment (excepting road vehicles) and agricultural and industrial machinery between 1973 and 1979. As Table 7 indicates, of eleven broad categories of manufactures, the net trade balance in 1979 of the industrial countries with the developing countries was positive in all but two—clothing and other consumer goods. The net balances in four sectors—chemicals, ma-

*Interestingly, Trilateral-OPEC trade restores the older pattern of North-South trade when primary products of the latter exchanged for industrial products of the former. In the 1930s more than half of industrial country exports of manufactures were destined for the developing countries in exchange for raw materials. It was only after the war that closer ties were forged among the industrial countries and trade in manufactures expanded so substantially among them, as noted in section IIA.
chinery, other engineering products, and road vehicles—accounted for $115 billion of the $132 billion balance in 1979 in favor of the industrial countries.

Excluding the oil exporters, this surplus is predictably smaller, about half as large. Yet the same sectoral pattern is evident. Clothing and other consumer goods (including footwear) are the only product groups in which developing country exports exceed imports. The dominant industrial country net exports remain chemicals, machinery and machine parts, and transport equipment.

It is useful again to differentiate among the main industrial regions. As Table 8 indicates, Western Europe (EEC and EFTA) exports the most manufactures to

### TABLE 7

**INDUSTRIAL COUNTRIES’ TRADE BALANCES IN MANUFACTURES WITH DEVELOPING COUNTRIES**

(billion U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron and Steel</td>
<td>1.5</td>
<td>4.9</td>
<td>8.3</td>
<td>13.2</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.3</td>
<td>8.5</td>
<td>14.3</td>
<td>23.2</td>
</tr>
<tr>
<td>Other Semi-Manufactures</td>
<td>0.9</td>
<td>0.5</td>
<td>2.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Agricultural, Industrial and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power-Generating Machinery</td>
<td>3.1</td>
<td>9.7</td>
<td>20.8</td>
<td>33.3</td>
</tr>
<tr>
<td>Office and Telephone Equipment</td>
<td>0.5</td>
<td>2.2</td>
<td>4.4</td>
<td>4.7</td>
</tr>
<tr>
<td>Other Engineering Products</td>
<td>4.0</td>
<td>14.1</td>
<td>32.9</td>
<td>40.0</td>
</tr>
<tr>
<td>Road Motor Vehicles</td>
<td>1.8</td>
<td>5.7</td>
<td>14.1</td>
<td>18.9</td>
</tr>
<tr>
<td>Household Appliances</td>
<td>0.6</td>
<td>1.2</td>
<td>2.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.8</td>
<td>1.0</td>
<td>1.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Clothing</td>
<td>0.0</td>
<td>−3.4</td>
<td>−7.2</td>
<td>−9.3</td>
</tr>
<tr>
<td>Other Consumer Goods</td>
<td>0.5</td>
<td>−0.7</td>
<td>−1.1</td>
<td>−0.2</td>
</tr>
<tr>
<td><strong>ALL MANUFACTURES</strong></td>
<td>15.8</td>
<td>43.7</td>
<td>92.8</td>
<td>132.1</td>
</tr>
</tbody>
</table>

Sources: Richard Blackhurst, Nicolas Marian, and Jan Tumlir, *Adjustment, Trade and Growth in Developed and Developing Countries*, GATT Studies in International Trade, No. 6 (Geneva: GATT, 1978), Table 21; and GATT, *International Trade 1979/80*, Table A21. Categories for 1963, 1973 and 1976 have been recomposed to correspond to the classification used in the 1979 source. For 1979, exports of manufactures from oil-exporting countries are not included in the individual sectoral balances, though they are included in the balance for all manufactures. Since total exports of manufactures from oil-exporting developing countries to industrial countries amounted to only $2.0 billion in 1979, their exclusion from the sectoral balances for that year is of minor importance. There are some variations in 1973 figures between the two sources used for this table, but none large enough to affect the trends indicated.
the South, including or excluding the oil exporters. Europe also enjoys the largest absolute surplus with developing countries, on either definition. More than two-thirds of its world surplus in manufactures emanates from developing countries. The oil-importing developing countries alone were a larger market for European exports of manufactures than Japan and North America taken together in 1963, 1976, and 1979. Relative to total exports of manufactures beyond Europe, the developing country total came to more than two-thirds in 1976 and 1979.

North America ranks as the second largest source of exports to the developing countries, as Table 8 indicates. But North America also experiences the smallest net balance in manufactures of any of the industrial areas by virtue of its liberal policies. In 1979, exports of manufactures to the oil-importing developing countries exceeded imports of manufactures from these countries by less than one-third.* In 1979, the South as a whole was more important for North America than Japan and Europe together as a market for manufactured exports. Oil-importing countries alone compared in magnitude with Europe.

Japan also sells a large share of its total exports of manufactures to the South, about as much as to North America and Western Europe combined in 1979. Japan also derives a considerable surplus from its industrial trade with developing countries — in 1979, about $36 billion, as Table 8 indicates. That was about half its world surplus in manufactures. Japan’s export-import ratio of trade in manufactures with the South was 7 to 1 in 1979, far greater than Europe’s 4 to 1, or North America’s 2 to 1. Even for oil-importing developing countries alone, Japan in 1979 exported five times as large a value of manufactures to them as it imported. Oil-importing developing countries in 1979 provided a somewhat larger market than North America.

In sum, developing countries are large, and expanding, markets for industrial country exports. For many Trilateral countries they are the principal source of surplus in the balance of trade in manufactures. European ties to the oil-producing countries, and Japanese interest in the continued development of its East Asian neighbors, derive from the importance of demand in these developing countries as well as supply. For the United States, a surplus of exports to the developing countries more than balances a deficit with the other industrial countries. The market afforded by the South and its continuing capacity to grow have become more than a matter of altruistic concern. It is a hardheaded busi-

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*Our use of regional figures for Western Europe and North America obscures sometimes important differences among countries within each region. For instance, Canada actually had a slight deficit in trade in manufactures with oil-importing developing countries in 1979, while the U.S. result fits more closely the generalization for North America in the text—already much lower than the other two regions. If oil-exporting developing countries are included in the calculation, Canada has a positive balance (export/import ratio of about 1.5 to 1 in 1979). See GATT, International Trade 1979/80, Tables A16 and A17.
<table>
<thead>
<tr>
<th>Source</th>
<th>North America</th>
<th>Japan</th>
<th>EEC and EFTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>4.3 22.3 34.4 47.6</td>
<td>1.5 10.0 16.7 27.4</td>
<td>4.0 17.5 20.5 37.0</td>
</tr>
<tr>
<td>Japan</td>
<td>0.6 3.0 3.7 7.0</td>
<td>0.5 5.4 9.0 14.4</td>
<td>0.5 2.9 3.1 6.3</td>
</tr>
<tr>
<td>EC and EFTA</td>
<td>3.4 12.2 18.4 31.2</td>
<td>1.5 0.9 1.7 1.5</td>
<td>24.8 118.4 176.4 314.3</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>0.4 1.2 2.0 2.1</td>
<td>1.9 9.6 14.1 22.5</td>
<td>8.8 26.3 55.1 90.5</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>4.8 13.5 29.9 46.3</td>
<td>2.0 12.5 24.9 42.2</td>
<td>7.0 18.6 29.2 53.7</td>
</tr>
<tr>
<td>Oil-Importing</td>
<td>4.0 10.9 19.3 33.9</td>
<td>1.7 10.0 16.0 29.4</td>
<td>1.8 7.7 25.9 36.8</td>
</tr>
<tr>
<td>Oil-Exporting</td>
<td>0.8 2.6 10.7 12.4</td>
<td>0.3 2.6 8.9 12.8</td>
<td>1.9 20.3 44.2 67.2</td>
</tr>
<tr>
<td>Net Trade Balance in Manufactures with All Developing Countries</td>
<td>4.0 5.2 14.6 20.2</td>
<td>1.9 10.2 22.0 36.1</td>
<td>6.2 13.0 18.9 32.1</td>
</tr>
<tr>
<td>Oil-Importing</td>
<td>3.2 2.6 4.1 8.0</td>
<td>1.6 7.8 13.1 23.4</td>
<td>1.7 7.2 25.3 35.1</td>
</tr>
<tr>
<td>Oil-Exporting</td>
<td>0.8 2.5 10.6 12.2</td>
<td>0.3 2.6 8.9 12.7</td>
<td>1.9 20.3 44.2 67.2</td>
</tr>
</tbody>
</table>

ness interest, sometimes obscured by exclusive emphasis upon the new competition the developing countries represent.

C. EMPLOYMENT EFFECTS IN INDUSTRIALIZED COUNTRIES

The concern with that competition, measured in growing imports of manufactures from developing countries, has been increasingly manifested by organized labor. Few international economic issues have become more politicized domestically than job displacement by low-wage labor abroad. Labor unions, once a bulwark of support for liberal trade, have in many instances become frankly protectionist—especially in the countries with freest trade. It is therefore essential to examine the employment effects of developing country trade.

A number of recent studies have focused on this issue. Many of these are quite broad and go beyond North-South trade. Some even include the combined consequences of increasing imports and exports as a result of lower tariffs and reduced quantitative restrictions. For obvious reasons, the Tokyo Round negotiations gave a special impulse to such calculations. The consensus of this research is that aggregate employment consequences are limited.

For the United States, one sophisticated analysis conducted for the Senate Finance Committee takes into account indirect as well as direct labor demand, and finds a net favorable result from Tokyo Round tariff cuts of 2300 jobs. Such a magnitude is trivial (.003 percent of total national employment). Even the largest sectoral changes—positive for agriculture, capital goods, and chemicals; negative for textiles and wearing apparel—were of negligible proportions. These results are replicated for the principal industrialized countries. On balance, the net impact was positive and very small for the European Community (.121 percent of total employment) and Japan (.002 percent). Sectoral consequences were larger for some small European countries, but still on average quite small.24

Such findings do not strictly apply to trade between the developed and developing countries. The simulations presume continuing restrictions on sensitive imports, and are heavily weighted by the composition of trade among the industrialized countries themselves. Yet they are important reminders that partial analyses focusing exclusively on import competition, and neglecting reciprocal exports and capital flows, necessarily exaggerate the negative side of trade expansion.

Several other recent studies focus exclusively on trade in manufactures between the developed and developing countries, but without including the full range of indirect effects. Nevertheless, they suggest that the still limited market share of developing countries, together with their continuing dependence on imports from the industrial countries, have in fact operated to generate a net employment gain for the latter. Estimates by the OECD Secretariat indicate that
the net positive direct employment content of OECD trade with the NICs in the period 1973 to 1977 was about 200,000 jobs annually. 25

Such a result is obtained because the absolute size of the industrialized country trade surplus offsets the larger relative labor content of imports of manufactures from developing countries. How much more labor intensive such imports are is a contentious question; estimates of the values of labor coefficients for imports and exports of different countries have varied rather widely. They do so in part by reason of the methodologies and the data used, but also because the product composition of trade has changed very rapidly over a short time. More labor-intensive imports of clothing, electronics and footwear in recent years make earlier studies obsolete, and their findings of small differences in labor requirements of imports and exports of dubious value. Developing country exports currently do seem to be more labor intensive, just as theory would predict. For 1976, the ratio of jobs created by one dollar of exports of manufactures to developing countries to jobs lost through one dollar of imports has been calculated by a recent World Bank study as .61 for the United States, .65 for the EEC, and .73 for Japan. 26 Yet despite such unfavorable ratios, all these regions generated an employment surplus in their industrial trade with developing countries because their net trade balances were so large. Such surpluses, despite the higher relative rates of growth of exports of manufactures from developing countries, have continued to be realized.

These numerical estimates of net direct employment effects do not do full credit to the type of employment generated through trade. Jobs created by exports to the developing countries are more likely to be in skilled occupations that lead to higher incomes than the jobs displaced by imports. The consequent upgrading of employment in the developed countries as a result of greater trade in manufactures is one of the benefits from specialization. It is also a potential serious cost, however, to those who lose their jobs and have difficulty finding others. We return to this point below.

Another class of studies has tried to estimate the specific contribution of net import competition to job displacement in specific sectors, with the intent of comparing its importance with productivity increases and changed domestic demand. For the United Kingdom, where import penetration has risen significantly in recent years, the conclusions are unequivocal. Productivity change was seven times more important than trade shifts in job displacement in 34 industries with significant developing country import penetration (at least 2 percent of national consumption) between 1970 and 1975. Trade with the developing countries in turn represented less than one-fourth of the total trade effect. These orders of magnitude reflect the positive export balances experienced by the United Kingdom with developing countries in more than half the sectors. Parallel research on the United States also concludes that labor productivity increases and changes in domestic demand dominate in determining employ-
ment growth in manufacturing sectors in the last two decades. Increasing trade with all countries cost at maximum between 1 and 2 percent of total manufacturing employment in 1976; the developing country share would be about a third of that total. 27

The consequences of past trade cannot be presumed to continue unchanged as exports of manufactures from the developing countries continue their relative gain. The trade surplus will eventually diminish. Yet projections over the next decade give grounds for cautious optimism. Because the absolute surplus in favor of industrial country exports of manufactures to developing countries is so large, even if the relative margin between developing country imports and exports narrows, the magnitude of the gap widens. Hence employment effects remain positive for the industrialized countries as a whole, though smaller, on account of the displacement effects of more rapidly growing labor-intensive imports. For individual countries experiencing small surpluses and a large difference in labor inputs of imports and exports, like the United States, effects may turn negative. These estimates may exaggerate displacement. More sophisticated developing country exports will entail a smaller relative labor intensity of their exports. Evidence confirms that some more industrialized developing countries are already moving in that direction, as noted earlier. That makes static differentials in labor coefficients of imports and exports an inappropriate indicator of the employment impact of trade changes over time.

As might be expected, the narrow aggregate employment surplus estimated by Balassa as the consequence of expanding trade conceals specific occupational and sectoral changes. Many unskilled jobs are displaced in the OECD countries; many skilled and professional jobs are created. Predictably, textiles and apparel, electrical equipment and supplies, and rubber and plastic products show a net loss of employment; machinery, transportation equipment, and chemicals gain. The losses even in the affected sectors amount, however, only to about 5 percent of their initial employment, an impact to be accommodated over the course of a decade. 28

These several studies taken together provide a quantitative context for evaluating potential adverse employment consequences of expanding North-South trade in manufactures. Despite their reassuring message, they should not be read with complacency. Immobile labor and capital suffer the costs of not easily replaced jobs and redundant equipment while society as a whole benefits.

In sum, aggregate job displacement in industrial countries from manufactures trade with developing countries does not pose the principal difficulty.*

*The declining trend a number of countries have already experienced in the proportion of the labor force employed in manufacturing has emanated not even from import competition as a whole, as we have seen, but from productivity and demand changes. It does not pose acute problems unless all industrial countries simultaneously seek to maintain, unchanged, the relative size of their manufacturing employment, and follow aggressive trade regimes in order to do so.
Much more difficult are the sectoral implications, as small as the shifts may appear. In the United States, "employment vulnerability due to imports was focused on the northeastern states primarily; on lower wage, somewhat-less-unionized employees who were more often minorities, women, older workers, less formally educated, and/or part-time employees. Those employed in sectors that are experiencing job gains due to trade appear to be a structurally different group..." The more heterogeneous the labor force in individual Trilateral countries, the more disparity there is likely to be between the qualifications of those losing jobs and the requirements of new ones. Adequate policies must confront the reality and human dimension of this problem. The potential benefits of upgrading the labor force through specialization can occur only if people are employed. The greater productivity of capital likewise depends upon resources that do not simply lie idle.

D. PROJECTING THE FUTURE

The past trends of world trade in manufactures have reflected a growing interdependence between North and South in the last 15 years. Growing exports of manufactures from developing countries have contributed to their expanding industrial capacity; growing imports of capital goods by developing countries have supplied needed inputs to their continuing investment as well as sustained demand for industrial country production. The performance of both groups of countries has thereby become more closely linked.

Projections of Production and Trade in Manufactures
Table 9 assembles four recent projections of production and trade in manufactures. Despite important differences, they confirm two basic conclusions.

First, total productive capacity in developing countries will grow more rapidly than that in the industrialized countries. By the end of the century, even under the smallest of growth differentials, the share of developing countries will exceed 22 percent; with larger differences, the proportion will amount to 25 percent, almost double the 1970 share. Developing countries, despite more modest relative gains per capita, will be a still more important market for industrial goods than they have been.

Second, the margin of advantage enjoyed by the North in its industrial trade with the South will narrow, although the absolute surplus will continue to increase. Developing country imports of manufactures from industrial countries, which exceeded the corresponding exports by a factor of 3.5 in 1979, will only be about twice as large by the year 2000. That still translates into a surplus for the industrial countries in 2000 of about $450 billion (1979 dollars) compared to $132 billion in 1979. At the higher relative rates of growth of developing country exports of the UNIDO projections, the gap at the turn of the century is smaller, but still almost $300 billion.
### Table 9

#### Imports to GDP Ratio Multiplied by 2 to Approximate an Industrial Consumption Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>GDP</th>
<th>Developing Countries</th>
<th>Industrial Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-90</td>
<td>8.9</td>
<td>6.0</td>
<td>3.4</td>
<td>Develop</td>
</tr>
<tr>
<td>1977-90</td>
<td>8.9</td>
<td>6.0</td>
<td>3.4</td>
<td>Develop</td>
</tr>
<tr>
<td>1974-2000</td>
<td>8.9</td>
<td>6.0</td>
<td>3.4</td>
<td>Develop</td>
</tr>
</tbody>
</table>

#### Trade in Manufactures

<table>
<thead>
<tr>
<th>Year</th>
<th>Export/Import Ratio</th>
<th>Imports From South</th>
<th>Exports From Developing Countries</th>
<th>Imports From North</th>
<th>Exports From North</th>
<th>Annual Percentage Rate of Change Except for Year 2000 Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.0</td>
<td>1.0</td>
<td>3.1</td>
</tr>
</tbody>
</table>
While the North will thus continue to enjoy a favorable balance in trade in manufactures with the South as a whole, it will certainly not do so with the NICs, and perhaps not even with the oil-importing countries as a whole. It is the large market of the oil-exporting countries that makes the difference. Yet even though the oil importers may arrive at a merchandise surplus in trade in manufactures with the North, there will still be a need for continuing and significant net flows of external capital to them. In the first instance, there is the merchandise deficit for petroleum imports that neither primary exports nor sales of manufactures to other developing countries are likely to offset fully. In addition, interest payments on a record debt will require increasing amounts of foreign exchange. There is a danger that protectionist policies will be formulated in Trilateral countries in response to bilateral competitive trade pressures, policies that fail to consider the broader balance of payments picture.

The various estimates of Table 9, while they concur on these principal points, diverge on the rapidity and pattern of trade growth that can be reasonably expected in the 1980s and 1990s. These differences are significant. The least trade intensive projections are those that have been made for the OECD Interfutures Project and the World Bank. The Interfutures report implies an annual average expansion of world trade in manufactures of 6.9 percent, while global gross product increases by 4.4 percent. The Bank’s World Development Report of 1980 is equally cautious. It calls for trade growth between 1977 and 1990 of 6.8 percent, while product increases by a similar 4.4 percent. The World Bank projection is stepped down from its more buoyant estimate of only the year before. Note, however, that it presumes acceleration after 1985 in both trade and product growth. For those later years the corresponding projections are each about 10 percent greater.

On the other side are the UNIDO and Balassa projections. The former, running to 2000 like Interfutures, presumes a much greater expansion of exports of manufactures from the developing countries — 13 percent annually. The industrial countries make room, so to speak, by growing more slowly in their exports and absorbing imports at a rate of 12.3 percent. The residual which makes up the difference is import absorption by the centrally planned economies — at an annual rate of 18.9 percent. Trade within the South is expected to increase only at the overall rate of 13 percent.

By contrast to the UNIDO estimates, the Interfutures results require 13 percent annual increases in trade in manufactures among the developing countries in order to yield a much more modest rate (9.5 percent) of developing country export growth to the world. The rate to the centrally planned economies is above average, but below that of intra-South trade. The industrialized countries are presumed to be a less rapidly expanding market (8.2 percent). In sum, Interfutures presumes that intra-South trade patterns will accommodate to changing industrial capacities to a much greater degree than UNIDO’s reliance on industrial country demand.
Balassa estimates an even greater expansion than does UNIDO of developing country exports of manufactures to the industrialized countries, an annual increase of 12.5 percent. At the same time he projects greater growth of industrialized country exports to the developing countries—9.7 percent. This trade-intensive style of development is reinforced by developing country gross product growth at lower rates than the UNIDO or Interfutures estimates. The consequence is less change than the other estimates in the export/import advantage that the industrialized countries currently enjoy in their trade in manufactures with developing countries.

Both the UNIDO and Balassa estimates have been projected by looking at trade in manufactures in isolation from trade as a whole, and from potential financial constraints in the balance of payments. They reflect recent trends toward greater interdependence and extend them forward. To some extent they can be regarded as what might be latent opportunities for trade, if other limits did not intervene. The World Bank and Interfutures projections come out of larger models that impose such restrictions.

One obvious and important potential limit is the magnitude of developing country import penetration in the industrialized countries. Both the UNIDO and Balassa estimates suggest a level in excess of 8 percent of consumption by the year 2000. While apparently still of manageable proportions, the implication is that international trade overall (excluding intra-zonal transactions in Western Europe and North America) will be supplying 20 percent of industrial country consumption on average during the 1980s—three times its current average level. That would further increase to 27 percent in the 1990s. Such increased trade intensity, even with reciprocal exports, would have discernible effects early on. Although no sector in the broadest sense need absolutely decline, the impact of import competition would extend over a broad range of products.

One additional element that affects such projections is the potential role of China over the next two decades. The sheer size of its industrial production, if rapid growth can be sustained in the next two decades, makes it a potential competitor of note. The present development strategy of the regime is favorable toward international trade, in contrast to earlier attitudes about integration into the world economy. Between 1978 and 1979 its imports of manufactures from its principal capitalist trading partners increased by 45 percent; its exports, more than 50 percent. At current trade levels, it is in a class roughly comparable to Brazil. 30

China can have a large impact upon trade of labor-intensive manufactures—textiles, clothing, consumer goods requiring assembly. Its centrally planned economy poses additional problems in evaluating the role of subsidies if its competitive position should rapidly improve. Rules that have been designed to smooth the trade participation of developing market economies may not serve adequately for China, the more so by reason of its strategic importance.
The Interfutures projections forecast not only a high rate of industrial production for China, but a rise in the share of China in trade in manufactures from 1 percent in 1970 to 7 percent in 2000. At the same time, other developing countries increase their share from 10 to 21 percent. The data thus seem to suggest that industrial countries will absorb these imports at the expense of trade among themselves, and answer negatively the query put in the report itself: “Will a burst of Chinese exports on the international market for manufactured goods disrupt the trade flows as from 1990, especially for products with a high labor input, at the expense of other Third World areas?”

Another, and more probable, answer is that trade growth in Chinese manufactures of that magnitude (20 percent annually from 1980 to 2000) is not likely. Exports of petroleum and other natural resources are likely to continue to play an important role over at least the next decade. There is also the large unsatisfied internal demand for manufactures within China that will deter a continuous increase in the share of product exported. In sum, China has the realistic capability to take a place as perhaps the largest of the NICs, but is unlikely to have a disruptive influence.

**Alternative Scenarios**

Moderate growth in an interdependent world— which all of the above projections reflect to varying degrees— may in fact not prove entirely stable. It can give rise to protectionist actions directed not only against the new competition of the developing countries but also industrial country partners. Moderate growth in the South may also encourage greater emphasis on self-reliance, and progressively more limited dependence on trade with the industrial countries. A decidedly more optimistic alternative would be that more effective domestic policies and coordination among the industrial countries succeed in returning the world to the high growth, high trade environment that prevailed until the early 1970s.

The OECD Interfutures Project has elaborated several scenarios that clarify the consequences of different styles of North-South interaction. Table 10 presents the key assumptions underlying these scenarios. $B_2$ will be recognizable as the status quo, and is the Interfutures projection used in the previous section. $A$ corresponds to restored rapid growth; $C$ approximates North-South de-linking; and $D$ represents realignment of developing countries around industrial country poles in an atmosphere of more restrictive trade policies among the Trilateral countries.

Scenario $A$ presumes effective Trilateral coordination and successful management of stable and rapid industrialized country growth. It also posits continuous liberalization with progressive integration into the world economy of the developing countries, particularly the NICs. Rapid growth is accompanied by
### TABLE 10
**Assumptions Underlying Interfutures Scenarios**

<table>
<thead>
<tr>
<th>Relations between Developed Countries</th>
<th>Partial Abandonment of Free Trade between Poles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collegial Management</td>
<td>Internal Dynamics of Developed Societies</td>
</tr>
<tr>
<td>Consensus in Favor of High Growth</td>
<td>Conflicts between Social Groups and Moderate Growth</td>
</tr>
</tbody>
</table>

**Trend in Relative Productivities**

<table>
<thead>
<tr>
<th>Convergence</th>
<th>Divergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>B₂</td>
</tr>
<tr>
<td>C</td>
<td>D</td>
</tr>
</tbody>
</table>

**North-South Relations and Relations between LDCs**

- Large Growth of North-South Economic Exchanges
- Accentuation of Divisions Between North and South
- Partial Fragmentation of South, Regional Alignments with Developed Country Poles


large financial flows between North and South, in the form of economic assistance for the poorer developing countries and private capital for the more advanced.

As a consequence, as reported in Table 11A, gross world product would increase by a multiple of about 3.4 in real terms between 1975 and 2000, and average per capita incomes by about 2.3 times. Incomes within industrialized countries converge as relative productivities equalize. Liberalization of trade contributes to high growth rates along with industrial restructuring to more productive lines of capital and consumer goods. Rapid productivity gains and absolute increases in income coexist with a declining share of world production for the North, except for Japan and for Western Europe outside the European Community.
<table>
<thead>
<tr>
<th></th>
<th>GDP (1970 US$ billion)</th>
<th>% of World GDP</th>
<th>Per Capita GDP (1970 US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. United States</td>
<td>1091.0</td>
<td>2418</td>
<td>1992</td>
</tr>
<tr>
<td>2. Canada</td>
<td>103.3</td>
<td>262</td>
<td>211</td>
</tr>
<tr>
<td>3. Japan</td>
<td>257.5</td>
<td>1365</td>
<td>1095</td>
</tr>
<tr>
<td>4. EEC</td>
<td>705.3</td>
<td>2070</td>
<td>1588</td>
</tr>
<tr>
<td>5. Western Europe other than EEC</td>
<td>150.8</td>
<td>647</td>
<td>562</td>
</tr>
<tr>
<td>6. Australia and New Zealand</td>
<td>48.8</td>
<td>123</td>
<td>108</td>
</tr>
<tr>
<td>OECD (1-6)</td>
<td>2356.7</td>
<td>6885</td>
<td>5556</td>
</tr>
<tr>
<td>7. Eastern Europe</td>
<td>607.8</td>
<td>2058</td>
<td>1962</td>
</tr>
<tr>
<td>8. Latin America</td>
<td>235.5</td>
<td>1279</td>
<td>1137</td>
</tr>
<tr>
<td>9. South Asia</td>
<td>82.6</td>
<td>280</td>
<td>250</td>
</tr>
<tr>
<td>10. South-East Asia</td>
<td>84.5</td>
<td>459</td>
<td>391</td>
</tr>
<tr>
<td>11. China</td>
<td>212.8</td>
<td>913</td>
<td>913</td>
</tr>
<tr>
<td>12. North Africa and Western Asia</td>
<td>150.3</td>
<td>816</td>
<td>645</td>
</tr>
<tr>
<td>13. Sub-Saharan Africa</td>
<td>49.7</td>
<td>208</td>
<td>145</td>
</tr>
<tr>
<td>Total 8-13</td>
<td>815.9</td>
<td>3955</td>
<td>3481</td>
</tr>
<tr>
<td>WORLD TOTAL</td>
<td>3802.3</td>
<td>12970</td>
<td>11057</td>
</tr>
</tbody>
</table>

## TABLE 11B
THE PATTERN OF TRADE IN MANUFACTURES BETWEEN DEVELOPED MARKET-ECONOMY COUNTRIES (A), CENTRALLY PLANNED ECONOMIES INCLUDING CHINA (B), AND DEVELOPING COUNTRIES (C), IN 1970 AND 2000, IN THE VARIOUS INTERFUTURES SCENARIOS (percentages)

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importing Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exporting Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>51.8</td>
<td>5.3</td>
<td>25.8</td>
<td>82.9</td>
</tr>
<tr>
<td>B</td>
<td>3.4</td>
<td>0.9</td>
<td>2.5</td>
<td>6.8</td>
</tr>
<tr>
<td>C</td>
<td>8.3</td>
<td>0.9</td>
<td>1.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Total</td>
<td>63.5</td>
<td>7.1</td>
<td>29.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### 2000: Scenario A
Importing Areas

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>40.8</td>
<td>7.4</td>
<td>19.6</td>
<td>67.8</td>
</tr>
<tr>
<td>B</td>
<td>6.4</td>
<td>1.6</td>
<td>6.0</td>
<td>14.0</td>
</tr>
<tr>
<td>C</td>
<td>9.7</td>
<td>2.8</td>
<td>5.7</td>
<td>18.2</td>
</tr>
<tr>
<td>Total</td>
<td>56.9</td>
<td>11.8</td>
<td>31.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

average annual trade growth, 1970-2000: 7.4%

### 2000: Scenario B2
Importing Areas

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>36.2</td>
<td>8.7</td>
<td>20.1</td>
<td>65.1</td>
</tr>
<tr>
<td>B</td>
<td>6.5</td>
<td>1.5</td>
<td>6.0</td>
<td>14.0</td>
</tr>
<tr>
<td>C</td>
<td>11.8</td>
<td>3.3</td>
<td>5.8</td>
<td>20.9</td>
</tr>
<tr>
<td>Total</td>
<td>54.5</td>
<td>13.5</td>
<td>31.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

average annual trade growth, 1970-2000: 6.9%

### 2000: Scenario C
Importing Areas

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>45.2</td>
<td>8.3</td>
<td>10.1</td>
<td>63.6</td>
</tr>
<tr>
<td>B</td>
<td>6.9</td>
<td>1.3</td>
<td>6.5</td>
<td>14.7</td>
</tr>
<tr>
<td>C</td>
<td>5.3</td>
<td>3.4</td>
<td>12.9</td>
<td>21.7</td>
</tr>
<tr>
<td>Total</td>
<td>57.5</td>
<td>13.0</td>
<td>29.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

average annual trade growth, 1970-2000: 5.2%

### 2000: Scenario D
Importing Areas

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>23.8</td>
<td>8.4</td>
<td>33.6</td>
<td>65.8</td>
</tr>
<tr>
<td>B</td>
<td>6.2</td>
<td>0.6</td>
<td>3.8</td>
<td>10.6</td>
</tr>
<tr>
<td>C</td>
<td>15.9</td>
<td>2.7</td>
<td>5.0</td>
<td>23.6</td>
</tr>
<tr>
<td>Total</td>
<td>45.9</td>
<td>11.7</td>
<td>42.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

average annual trade growth, 1970-2000: 6.6%

The other side of the coin in Scenario A is higher growth rates than the OECD average for many developing countries in Latin America, the Middle East, and East and South-East Asia; Sub-Saharan Africa and South Asia, however, lag. High population and income growth along with external finance lead to a very rapid increase in industrial production and imports in the South; high rates of growth of food consumption and production occur, with a spillover into increased exports.

Table 11B specifies the changing pattern of trade in manufactures. Exports of manufactures of developing countries rise considerably more rapidly than the average in Scenario A and accumulate to 18 percent of the world total at the end of the period. Developing countries increase their sales to the industrialized more quickly than their imports. Sales to other developing countries and centrally planned economies increase relatively more than to the industrialized as diversification occurs. Overall trade growth in manufactures is 7.4 percent per year in Scenario A as global product expands by 5 percent. In B, the moderate growth scenario, product grows by 4.4 percent and trade in manufactures by 6.9 percent. Developing country exports of manufactures differ little in the two scenarios, except, of course, that they represent much more competitive pressure, and a more destabilizing influence, when industrial country growth is reduced.

While perhaps implausibly optimistic — given the internal and external policies required in both developed and developing countries — Scenario A is a useful indication of the potential mutual gains inherent in a constructive interdependence. North and South both benefit from a commitment to economic growth, while reformist policies in the latter make possible significant alleviation of internal poverty. Static and dynamic gains from trade combine to achieve greater efficiency and convergence of income for many countries, if not all. Distributive and welfare policies help ameliorate the continuing poverty of the lowest income countries.

At the other extreme is Scenario C — deteriorating North-South relations and rejection of interdependence. Developing countries choose to opt out and reduce their integration in the international economy. Aid and capital flows from the developed countries are limited.

In this alternative, gross world product and average incomes increase to a much lesser extent than in any other scenario. As Table 11A shows, the loss in global income is substantial, almost a third relative to the high growth Scenario A. A larger share of world product for some developing regions does not produce a more rapid rise in developing country income levels. Indeed, per capita GDP is 24 percent below the high growth Scenario A. Japan and Europe are very adversely affected because of their dependence on external trade and imported raw materials. North America’s share of world product rises sharply. The most advanced of the developing countries likewise continue to do rela-
tively well because they are best positioned to exploit the new opportunities for trade among the developing countries.

As Table 11B reveals, trade in manufactures is very adversely affected in this de-linking scenario. Trade between North and South is considerably restricted. Developing country imports from, and exports to, the industrialized countries fall dramatically. Sharpest of all is the decline in exports from the industrial to the developing countries. Trade within the South increases to 60 percent of developing country exports. Even so, its annual growth rate at 14 percent is less than a percentage point higher than in Scenario A. The restructuring of the world economy thus occurs at the expense of increasing trade with the North, without adequate substitute.

Such “de-linking” therefore has a perceptible cost for the South. The cost for the North, however, is even greater—most dramatically for Japan. In a world of deliberate rejection of North-South mutuality and accommodation, the industrialized countries do more poorly than their more dynamic NIC imitators who continue to retain their developing country associations and market access. In turn, of course, as their success distances them from others less fortunate within the South, these newly industrializing countries run the risk of less satisfactory growth as well. Such a scenario is not the one of choice for the large majority of countries in the South. But it could gradually take shape because of inadequate policy responses and misunderstanding in both North and South.

Scenario D is one of abandonment of the principles of free capital and trade flows among the industrialized countries. Instead of universalism, regional associations dominate. In this fragmented world, preferential relationships govern the flow of aid, finance, and trade between developing country regions and their industrialized country counterparts: North America allies with Latin America; the EEC with Africa; and Japan with South-East Asia. Slow or moderate growth in productivity in the North is presumed in view of the much diminished trade flow among the industrialized countries.

The Trilateral groups are affected differentially. North America actually achieves a higher income in Scenario D than in Scenario B2, the moderate growth simulation. Western Europe and Japan decline by about the same amount (7-8 percent) as they lose industrialized country markets and free access to raw materials. North America is favored by its hemispheric proximity to the largest developing country market, and a diversified supplier of raw materials. The Common Market’s alignment with Africa does not replace markets or sources of supply lost elsewhere. Sub-Saharan Africa actually gains relative to a diffused moderate growth alternative as a result of European need to encourage development in the region.

Table 11A understates the profound changes implicit in Scenario D because it focuses on the year 2000, after production and trade realignments have successfully been managed. A 1990 comparison with Scenario B2, the moderate
growth alternative, reveals a much sharper decline, concentrated, as would be expected, in Japan and the European Community. Table 11B’s information on the trade pattern in 2000 clarifies why such a longer adjustment period is necessary. Trade in manufactures among the industrialized countries has declined drastically, and has become restructured along North-South lines. Developing countries increase their exports to, and imports from, the specific industrialized country poles to which they are linked more rapidly than in any other scenario. Intra-South industrial trade grows more slowly.

Rejection of global interdependence in favor of such regionalism is one possible outcome of preferential tendencies that begin by adjusting and regulating trade in a differentiated fashion. The benefits from special treatment depend upon little spillover to the rest of the world economy. When regionalism is generalized it is no longer so attractive, as a comparison with even a moderate growth context reveals. Neither industrialized nor developing countries fare better.

Such a fragmented world, in addition, carries considerable risk. The loss in consensus within the OECD is incompatible with resolution of serious global problems that require a global perspective, not least those of war and peace. New special economic ties with sub-sets of developing countries raise serious issues of potential political intervention and neo-colonial influence. The South is not likely to comply willingly, even for apparent economic benefits. Such a regionalism, though less costly than de-linking in economic terms, is not an attractive alternative to effective North-South cooperation on a global scale.

E. CONCLUSION

The magnitude of industrial exports from developing countries is clearly large enough to involve dislocations of tangible proportions in Trilateral countries in some products and some sectors. At the same time, it is small enough—even under conditions of continued rapid growth of developing country exports of manufactures—not to overwhelm. In 2000, imports from developing countries will fall short of 10 percent of consumption of manufactures in the North under the most trade-intensive scenarios. The reciprocal flow of industrialized country exports will rise faster than trade among the industrial countries themselves. Although growing less rapidly than imports, those exports will guarantee a certain trade surplus in manufactures for the North vis-à-vis the South as a whole, and perhaps even excluding the oil exporters.

What is at issue is not whether the industrial countries ought to notice the transition in global manufacturing activity that is firmly launched, but the quality of their response. As too many developing country exporters have discovered, and many more fear, the policies of many industrialized countries seem to
be piecemeal, belated, and protectionist. However such defenses may ease the immediate problem of import competition for the North, this reaction is not one that will endure political pressures from the South or economic inefficiencies in the North. As the simulations have suggested, there are shared rewards to be gained from a stable structure of interdependence. In the next section we examine whether the policy responses to expanded trade in manufactures have laid the basis for such a constructive interdependence.
IV. POLICY RESPONSES

Commercial policy decisions in the postwar period have been shaped by, and in turn influenced, an impressive global reallocation of industrial activity. First, the recovery of Europe and Japan, and their subsequent sustained high rates of growth, have dramatically altered the distribution of industrial activity within the North. Second, a more modest redistribution in favor of the South has begun in the last decade. The dominant theme of industrial country commercial policy in the course of these changes, and facilitating them, has been a commitment to freer trade. Since the 1970s, however, liberalism has come increasingly under attack, theoretically and practically. Protectionism has not yet won the day, despite the confluence of increasing developing (and industrialized) country competition and an international economy buffeted by oil price increases, inflation and recession. The Tokyo Round has produced an average reduction in tariffs of more than 30 percent and a series of codes designed to limit restrictive practices.

This chapter considers first the strong postwar commitment to liberal policies followed in the 1970s by counterarguments advanced in favor of restricted and managed trade. It then analyzes the new protectionism of the last decade. A final section relates the agreements reached during the Tokyo Round of multilateral trade negotiations to the salient issues of North-South trade in manufactures.

A. CHALLENGES TO LIBERALISM

The theory in favor of liberal trade was widely disseminated by the nineteenth century Manchester School. It reduces to the simple proposition that an international division of labor provides mutual gains: Production can take place at the site of lowest cost and be sold to all consumers at lowest prices. In a dynamic world economy, that translates into a need for continuous adaptation of domestic production to import competition. Particular industries in specific locations wax and wane depending upon relative costs. In the short run there may be transitional unemployed resources and losses, but in the longer run, countries emerge better off with a more efficient industrial structure and higher real income.
GATT's creation early after World War II, in place of the more far-reaching and hence unratified International Trade Organization, was motivated by such a liberal ideology. The memory of the restrictive trade practices that aggravated the Great Depression of the 1930s and exacerbated political tensions was powerful in the minds of its architects. The principal and immediate objectives of GATT included reduction in tariffs and other quantitative restrictions and elimination of discriminatory practices. Universal rules were to govern a freer trade order. Particularistic national interests were to be satisfied by introducing reciprocity into negotiations and hence direct and immediate perception of mutual advantage.

GATT has presided over seven rounds of multilateral tariff negotiations from its establishment in 1947 through the recently completed Tokyo Round. During that time the initial average tariff level of about 50 percent on industrial products has been successively cut across the board. The extent of GATT’s accomplishment is measured by the low average levels of tariffs on industrial products now prevalent in the industrialized countries. After the further reductions of more than a third negotiated in the Tokyo Round, the weighted average tariffs of the industrial countries will be less than 7 percent on finished manufactures, 4 percent on semifinished products, and virtually zero on raw materials. As averages have come down, so too have the variations among individual products as well as differences among countries.

While GATT sought to eliminate restrictive practices and reduce tariffs at the global level, the OEEC was doing the same for postwar Europe. That liberalization proceeded from the inside outward. Intra-European trade thus was exempted from quantitative limits before imports from outside countries. It was a pattern replicated in the 1957 Treaty of Rome establishing a common market incorporating Belgium, the Netherlands, Luxemburg, France, Germany and Italy. In less than a decade external tariffs were lowered to 20 percent of their initial 1957 levels. The other European trade grouping, the EFTA, moved in a parallel fashion.

In this new, progressively more liberal environment, trade in manufactures flourished, as we have seen, with the industrial countries the principal beneficiaries. From a stable pattern going back to the nineteenth century in which trade in manufactures made up 40 percent of trade, the share rose by 1970 to more than 60 percent. The rise of the transnational enterprise and significant foreign investment accelerated the trend. Among the industrial countries, intra-firm transactions helped to create trade across national boundaries. While exact data are difficult to come by, as much as a fourth of all international trade in manufactures may occur within single firms. That seems, at least, to be the correct order of magnitude for the United States, Sweden and Britain.

In the troubled 1970s, new protectionist influences began to be felt in an important way. Developed countries began to resort to quantitative restrictions,
frequently justifying them as safeguards for threatened domestic interests. The earlier special treatment of textiles and apparel threatened to become a model rather than an exception.

Growing protectionist practice had its counterpart in closer scrutiny of the liberal model. Not that liberalism had been entirely pure, even in its heyday. Indeed, the deviations were of great importance in shaping the postwar economy and underwriting expansion of the international economy. Far from insisting upon non-discrimination as an essential principle governing all international trade, the United States tolerated and even encouraged intra-European trade at the expense of American imports. In similar fashion the United States compensated for continuing European discrimination against Japan—after its accession to GATT—by opening U.S. markets fully to Japanese imports, Japanese protectionism and controls over direct investment notwithstanding. It did so in both instances for overriding political considerations—the unity of the West in the face of the Soviet threat. One consequence, of course, was that a more prosperous Europe and Japan could then more easily accept and generalize a liberal ideology.

The willingness of the United States to bend the rules, and to accept a more rapid dispersion of its economic power, did not escape the notice of the developing countries. From the 1950s on, in the United Nations and elsewhere, Third World spokesmen have also argued in favor of special and preferential treatment in trade geared to their needs and interests. They did not meet with even partial success until the 1970s. Before such recognition, the developing countries were limited to gains derived from application of the most-favored-nation clause to tariff reductions conceded to others. Those cuts occurred in response to offers and acceptances among the industrial countries on manufactures of relevance to them. Trade in primary products continued to be encumbered by restrictions. The very different composition of developing country exports of manufactures, and their limited importance, deprived the exercises of great meaning. Few developing countries participated actively in the early rounds of multilateral tariff negotiations, despite the fact that from the very beginning some were represented in GATT. They directed their energy and limited political weight elsewhere—principally to argue for greater economic assistance and for increased and more certain foreign exchange earnings from stabilization of primary commodity trade.

The eventual establishment of UNCTAD as a permanent organ in 1964 gave new impetus to the elaboration and persistent advocacy of an agenda that evolved into the later formal call for a New International Economic Order. Among the salient trade demands were a permanent concession of tariff preferences on manufactures, permitting the developing countries favored access to the markets of the industrialized economies; harmonization of an industrial country tariff structure that extends greater protection to finished products than
to earlier stages of fabrication and thereby discourages processing of raw materials within the South; and, above all, negotiation of commodity agreements.

Only modest progress was achieved on this agenda prior to the crisis ushered in by the rise in oil prices in 1973. Industrial country acceptance of temporary generalized tariff preferences in the late 1960s was followed by long delays in implementing required national legislation. After all that, eligibility was restricted in a variety of ways and sensitive products—usually labor-intensive products which developing countries could most easily produce—were excluded. The declaration calling for the Tokyo Round in 1973 did explicitly accept special and differential treatment for developing countries, but without further specification this was only a modest gain. There was thus little of practical value to show by the mid-1970s. After the demonstrated success of the OPEC cartel in effecting a massive transfer of resources, such gains seemed even more minimal. The South then mounted an even more vigorous effort to persuade the North to join it in a comprehensive New International Economic Order.

Much has been written on the New International Economic Order—by advocates and defenders, by opponents and critics, and by analysts of a sympathetic or unsympathetic stripe. This is not the place to rehearse the debate. The essential point is that even while arguing only for equal opportunity, some supporters of the New International Economic Order seemed to call into question the underlying principles of liberalism under which the old order had prospered.

Such a predisposition toward intervention, frequently to make the market work more fairly, spilled over from plans for commodity stabilization to proposals for new arrangements for exports of manufactures and services. Some more radical enthusiasts of the New Order visualized it as one of limited rather than continued economic interdependence. "De-linking" and "collective self-reliance" were strategies for greater autonomy and less North-South trade. Even more moderate proponents tended to place more of the blame for lagging exports of manufactures on external factors rather than developing country domestic policies. While the formal debate continued, many countries of course had already opted in favor of export promotion policies at the national level. In calling for a new order, these developing countries really wished to preserve and extend the old.

This attack on liberalism from the South was matched by evidence of flagging enthusiasm in the North. Greater economic interdependence and rising imports of manufactures led to an increasing number of proposals to reduce and manage trade flows. In the words of one formulation, by the Frenchman Thierry de Montbrial in the January 1977 meeting of the Trilateral Commission,

Very surely, we cannot be in the future as oriented toward free trade as we used to be. . . . Free trade is now the exception rather than the rule. How-
ever, in our mentality we stick to the idea that free trade is an ideal to be
achieved and think that we owe our prosperity in the last twenty years to
this ideal. . . . There are a number of acceptable examples of limitations to
the free trade principle. It is important that we not view these things as
sins. We should view them as normal acceptable organizing devices.
These kinds of protectionist measures will come whether we like it or not.
My point is that we should organize them and not let them appear in
disorder. 37

Those sentiments were officially echoed by French Prime Minister Barre’s call
for “managed liberalism.”

Such attitudes in the industrialized countries were inspired in part by the
greater problems of macro-economic domestic adjustment in an interdependent
world of large trade and capital flows. Inflationary and recessionary impulses
alike are transmitted rapidly from one industrial country to another in an inte-
grated world economy. Frictions were exacerbated in the 1970s by the unprece-
dented surplus of the oil producers. Surplus and deficit industrial countries
consistently failed to reach agreement on their respective responsibilities in
restoring greater balance in trade flows. Early in the Carter Administration, for
instance, the United States called for more rapid economic expansion of surplus
West Germany and Japan; the surplus countries rejected such a “locomotive”
theory and, as the U.S. trade balance and the value of the dollar deteriorated,
insisted instead on internal restraint in the United States. Floating exchange
rates have reduced some of the tensions in recent years, but have not been able
to restore equilibrium to an international economy wracked in 1979-80 by an-
other oil price shock, and in 1980-81 by an “interest rate shock”.

In addition to such macro-economic concerns, in which domestic goals ap-
peared to bow to balance of payments imperatives, complaints from specific
sectors adversely affected by increased imports also began to surface with
mounting intensity in the 1970s in a number of industrial countries. Employers
and unions found themselves on the same side in rejection of liberal trade. More
import competition meant more adjustment, particularly unwelcome in a period
of relatively slower growth, higher unemployment, and considerable uncer-
tainty. As the number of sectors confronting severe competition for the first
time mounted, amid evidence of domestic excess capacity, so did the protests.
New restrictions, typically quantitative, were advocated to allow more time for
adjustment (and profits to finance it). A classic recent case is the protection
successfully obtained by the United States automobile industry against, in this
case, Japanese imports.

While the early impulse toward managed trade emerged from the French,
newer support — although not yet official — has taken root in the United King-
dom and the United States. It has come in the guise of concern for the deindus-
trialization and slow growth these economies have experienced and in the name
of reindustrialization. In England the Cambridge economists have been a source of intellectual justification. In the United States, advocacy for restrictions has come from a number of establishment business, labor and financial leaders.

The Cambridge group has been explicit about the need for limits to trade in the form of import quotas. These economists contend that the British economy has a persistent tendency toward balance of payments deficits that prevent internal growth potential from being realized. They also argue that domestic industry can only restructure with guarantees of a secure national market. 38

Two assumptions are key. One is that such a protected market would encourage higher levels of investment and, thereby, higher productivity. This is an application of the classical infant industry argument to established firms and sectors with a record of inadequate response. In the second instance, the protectionist prescription presumes that exchange rate changes cannot equilibrate the external accounts. Their effect is seen only to slow domestic growth and raise unemployment, thus intensifying a vicious circle of low investment, low productivity, and limited export capacity. This is again a familiar argument, reminiscent of developing country economists defending import substitution and protection in the 1950s. Its applicability to more sophisticated developed economies seeking to reindustrialize is more contentious.

It is not surprising that these ideas should have originated in Britain, nor that they have received growing endorsement in the United States. Both countries have experienced significant increases in import penetration since 1961. Between that year and 1978, the ratio of manufactured imports to GNP has increased from 4.6 to 14.2 percent in the United Kingdom and from 1.5 to 4.5 percent in the United States. Exports have also increased, but more slowly. Because this competition frequently comes from new sources, it is the more visible. Developing countries are not the only new entrants. The threat of Japan in the European market is more important than the imports from the NICs. Autos and steel from Japan and Europe outweigh shoes from Korea and Brazil in the U.S. market.

The strength of these different challenges to liberalism has not built with the impetus that was anticipated even a few years ago. Many developing countries, after some display of dissatisfaction with the results of the Tokyo Round, are found in the free trade camp, at least when it comes to their exports of manufactures. The New International Economic Order is no longer center stage. Similarly, France seems to have retreated from its proposals for managed trade, at least in part because they have not encountered sympathetic response. Cartelization has not advanced in the European Community and efforts to organize broader global agreements on shipbuilding and steel in the framework of the OECD have been no more successful. United States and United Kingdom official policies have shown sensitivity to the importance of avoiding trade
restrictions, as reflected in the recent American decision to allow quotas on shoe imports from South Korea and Taiwan to lapse.

Still, it is perhaps too sanguine, and certainly premature, to conclude that, "since early 1978, the trend toward increased protectionism in the developed countries has not continued further, and in some respects, it has even been reversed." While developing country exports to the industrialized countries continued to advance at a rapid pace in 1979, the 10 percent growth was much below 1978’s 15.6 percent. 1980 and 1981 results will presumably show further deceleration. GATT’s International Trade 1979/80 is more cautious in referring to "the widespread and multiplying obstacles to the developing countries’ manufactured exports to industrial countries, and the resulting uncertainty about continued market access." Business Week, in its July 27, 1981 issue on the Ottawa economic summit, warns of an accelerating drift toward protectionism "that threatens the Western Alliance." European protectionism has received a new impetus from high unemployment levels; the Japanese have moved grudgingly and slowly to open their domestic markets to avert retaliation elsewhere; and the United States is inconsistent, with an "Administration that wants to talk free trade and practice sectoral protectionism."

Prudent concern is well advised. The "new protectionism" that gained strength in the 1970s may not disappear even with better times, and may be tightened in the present recession. Such restrictionist policies are tailored to sectoral and country import competition. They require a closer look.

B. THE NEW PROTECTIONISM

Three characteristics of the new protectionism that gathered strength during the 1970s differentiate it from the old. Rather than generally limiting trade, the new protectionism tends, first, to be sector specific and second, to involve bilateral negotiation. Third, it tends to use new instruments of quantitative restriction that evade GATT rules and supervision.

The sectors in which new protective barriers have been erected fall into two principal categories. For intermediate and capital goods like steel, shipbuilding and automobiles, shifting trade among the industrialized countries has been the trigger. Japanese imports are the principal cause of concern, although some developing countries have also begun to compete. In consumer goods like textiles and clothing, footwear, household appliances and television sets, the sources of the imports are increasingly, but not exclusively, developing countries. Italian shoes, United States textiles fabricated from artificial fibers, and Japanese television sets, for instance, still retain a large share in imports.

These sectors frequently suffer from excess capacity constructed without anticipation of shifting comparative advantage and new external sources of supplies. Productivity change has frequently been slow, without comparable
adjustment of relative wages. Many of these sectors have experienced limited
growth in recent years without fully compensating reduction in employment. In
some cases production is regionally concentrated. Frequently such activities
have benefited from special governmental subsidies, granted in one guise or
another, and even state investment, in order to assure continuing production.

To protect domestic suppliers against further erosion of their market in these
circumstances, governments have resorted to different forms of restrictions.
One category is composed of orderly marketing arrangements formally nego-
tiated between governments. The first important example, which became a
model, was the Long-Term Arrangement on Cotton Textiles in 1962.

The agreement had its origin in progressively larger Japanese exports of
cotton textiles to the United States in the mid-1950s. To ward off formal limits
empowered by American legislation, Japan instead eventually developed a pro-
gram of voluntary restraints. As a consequence, Japan’s share of cotton textiles
imported into the United States declined from 63 percent in 1958 to 26 percent
in 1960.\textsuperscript{42} Other sources, prominently Hong Kong, simply replaced Japanese
competition and made apparent the futility of narrow restrictions.

The United States sought relief under the auspices of GATT. In 1960 the
Contracting Parties agreed to the need for special procedures appropriate to
market disruption defined by three conditions: (1) sharply increased imports of
particular products from specific sources; (2) substantially lower prices of im-
ported than domestic products; and (3) serious injury, or the threat of such, to
domestic producers. As Keesing and Wolf point out, the motivating concern
was the second: “... the ability of poorer countries to offer goods at very low
prices, which appeared to threaten rapid and irresistible market penetration —
even if the level achieved was modest — and to erode profitability on a wide
front...”\textsuperscript{43} Controls were designed to discriminate carefully at the level of
products and suppliers.

Multilateral ratification of essentially bilateral restrictions was an important
feature of the arrangement. That procedure reflected in part the early expecta-
tion that these restrictions were to be a temporary and unique abrogation of
GATT obligations, and not to deter the liberalization of trade more generally. In
addition, a framework of rules would carry over to the restricted regime a set of
reciprocal obligations of exporters and importers, rather than setting quotas by
arbitrary unilateral decisions. In that way the developing countries would not be
entirely deprived of increasing market access, while importing countries safe-
guarded their domestic interests.

The LTA was, in short, managed trade—permitting imposition of quotas
within a negotiating framework that promised some continuing subsequent
growth, but slower than might otherwise have occurred. Its impact was differ-
et than anticipated. First, trade growth from developing countries was not
significantly inhibited; and second, rather than withering away, the framework
was subsequently expanded into a broader Multi-Fiber Arrangement.

Instead of cotton textile imports posing significant competition, the development of synthetic fibers gave a new impulse to the textile industries of the developed countries and improved their competitive position. Between 1963 and 1973 the industrialized countries actually increased their net exports of all textiles to the developing. At the same time, net imports of apparel rapidly increased. The restrictions on cotton textile exports were partially responsible: They led to upgrading of cotton exports to avoid carefully specified limits on fabrics and, most importantly, created incentives to fabricate clothing using progressively cheaper synthetic inputs. Man-made fibers dominated in the new apparel trade.

By 1971 the United States had begun to negotiate bilateral agreements to limit the new trade, using the authority of the old restrictions. Again the United States sought formalization of the extension and persisted in the negotiation of a Multi-Fiber Arrangement that went into effect at the beginning of 1974. That agreement involved more generous import growth provisions in return for extension of the scope of product coverage. It also established a formal multilateral surveillance procedure under GATT auspices to deal with disagreements in implementation of the new rules.

These liberal tendencies confronted the reality of industrial country recession after 1973 and could not be sustained. The leadership in favor of increased protection emanated from the European Community, which bore the brunt of above average imports of textiles and clothing between 1973 and 1976. Quota protection in the Community, because it required substantial internal coordination, took a long time to put in place. An agreement with South Korea was not reached until the very end of 1975, and with Hong Kong only a few months earlier. Moreover the Community agreements were quite specific, and hence could be by-passed more easily, a direct consequence of West Germany's desire to avoid significant trade management. Finally, the strong export performance of Italy meant that other Community countries felt the impact of import competition even more strongly than the Community aggregates indicate.

In 1977, as a consequence, the Community insisted upon substantial modification of the MFA, notably scrapping the 6 percent annual increase in the volume of imports built into the earlier version. New United States agreements with the principal country suppliers—Hong Kong, Taiwan, and South Korea—put into practice lower growth limits. Beyond this, in 1979 and 1980 the United States insisted on further changes, mid-term in the negotiated limitations, to reduce market access even more.

The implications of these developments are manifest in the trade statistics. The value of clothing imports into the industrial countries from the developing countries increased by 18 percent annually between 1976 and 1979, compared to more than 27 percent annually between 1973 and 1976, despite a higher rate
of inflation in the later period. In volume, there was an absolute decline of imports into the EEC and the United States between 1976 and 1978. More rapid Japanese import growth in 1978 and 1979, because of its small absolute contribution, does not offset. "As a result, the developing countries' share in world exports of both clothing and textiles, which had reached a peak of 38 and 20 percent, respectively, in 1976, declined further in 1979 to 36½ and 18½ percent."44

Quotas have thus begun to have an appreciable impact on product groups that currently account for almost 30 percent of developing country exports of manufactures to the industrialized countries. These quotas are directed in the first instance against the most successful exporters. This seems to provide a margin for other entrants. They cannot depend upon such substitution for long, however, since success is guaranteed to mean more limited growth for them in the future as well. As of late 1979 the United States had bilateral agreements with sixteen developing countries in the textiles and clothing sector; this is in addition to 24 formerly restricted countries whose supply is now so small that quotas are unnecessary. In the negotiations for renewal of the MFA now underway, the Community calls for aggregate import growth no more than 1 percent greater than consumption growth, and more onerous quotas for the large suppliers. The United States position is unlikely to be much more generous. The end result will be more severe restrictions.

Textiles and clothing are not the only products in which rapidly growing developing country exports have led to formal orderly marketing agreements. The EEC has negotiated quotas in carbon steel with South Korea (and in this and many more products with Japan). Another prominent example is the restrictions applied by the United States in 1977 to imports of footwear from South Korea and Taiwan. In 1981, with expiration due, the International Trade Commission recommended extension of these quotas for only two years and for Taiwan alone. Despite pressure for harsher limits by Congressional representatives from affected districts, the Reagan Administration has gone farther and allowed the quotas to lapse. Domestic and international politics, and not only free trade principles, played a role. South Korea and Taiwan figure importantly in the national security strategy of the Administration, the more so because of continuing ties to China. The New England region most affected by shoe imports is also heavily Democrat, unlike the textile South.

Another form taken by the new protectionism has been voluntary export restraints. Typically these have been bilaterally negotiated between industries in importing and exporting countries with less direct government participation. No laws need be passed. Needless to say, however, public pressure is not absent, and voluntarism is relative to other less pleasant alternatives. Implementation is left to the exporting industry, sometimes with governmental supervision. The Japanese have frequently accepted such arrangements rather than entering

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into formal inter-governmental agreements. The most recent example is automobile exports to the United States. There is logic to the preference for restraints. Industrial concentration in the export sector makes such quotas easy to enforce; and "voluntary" restraints provide more scope for domestic decision and appropriation of the profits from quotas than restrictions imposed or even negotiated externally. In addition, Japan has a strong interest in discouraging the spread of legally authorized trade management, fearing that it will be the principal victim.

Recent developments in regulating and allocating the international steel market illustrate still another means of market sharing. Since the beginning of 1978 the United States, followed by the EEC, has set minimum reference or trigger prices for imports, based on Japanese production costs plus transportation. Minimum prices have been established in order to limit growing steel imports. Although the principal target is Japan, some 20 other countries have also been forced by the EEC to cut back their market shares to 1976 levels through direct bilateral agreements. Developing country suppliers like South Korea, Brazil, Mexico and India have not yet been significantly affected, but the global overcapacity in the industry makes them potential victims. That explains their decision not to join the OECD Steel Committee when initially invited, out of concern that it would evolve into a broader multilateral arrangement like the textile agreement.

Beyond these new devices to cope with import competition, a number of industrial countries have relied upon more conventional defenses, on a narrow single product and single country basis. Countervailing and anti-dumping duties have been used to offset alleged unfair competition in a series of additional items: fabrics and yarns, gloves, paper and paper products, freezers, etc. Developing countries, arguing their need for export subsidies to compensate for high tariffs, feel victimized by such procedures. This was especially the case since — until the Trade Act of 1979 — the United States did not even have to establish injury to domestic producers. The new code on subsidies negotiated during the Tokyo Round was the *quid pro quo* for American conformity on the injury requirement.

In other instances, industrial countries have authorized temporary quota limitations on imports in order to prevent disruption of the domestic market by competition from lower-cost developing countries. These safeguard actions, valid in principle under Article XIX of GATT, have rarely invoked the required multilateral procedures. Escape clauses have been especially frequently invoked by the European Community, as a whole and by individual members; Taiwan and South Korea have been the most frequent victims.

Japan has avoided application of quantitative restrictions. Yet the pattern of Japanese imports from developing countries belies the conclusion that they emanate from free market forces exclusively. They reflect the "difficulties foreign
suppliers have in penetrating the Japanese market unless helped by Japanese partners . . . if only because of the nature of the distribution system and the complex network of relationships among Japanese firms.145

An estimate of the pervasiveness of the new protectionism does not come easily by the very nature of its intent to evade surveillance. A recent inventory of restrictive practices indicates that for manufactures, 22 percent of EEC tariff categories, 21.3 percent of United States categories, and 5.2 percent of Japanese categories were subject to quantitative restrictions in 1976.46 They now span a wide variety of sectors and refer to many countries, including other industrialized country suppliers. Overall, the GATT Secretariat estimated in 1977 that new non-tariff barriers put in place in the previous two years applied to $30-50 billion of trade, or to 3-5 percent of total world exports.47

Olechowski and Sampson also document the bilateral character of the new protectionism. Almost all the EEC limitations, and half the United States ones, are discriminatory; virtually all of the Japanese restrictions are non-discriminatory. Developing countries are increasingly victims as they become more prominent exporters of manufacturers. A recent International Monetary Fund survey gives an idea of the extent of quantitative restrictions encountered in recent years by developing country exporters. Taiwan was subject to over 25 restrictive actions in 1976 and 1977 alone; South Korea confronted more than 70 measures by industrial countries between 1971 and 1977. From only a handful in 1971-73, restraints mushroomed to about a hundred in 1974-77.48 This is not the special and differentiated treatment developing countries have advocated.

These new quantitative restrictions do not allow exporters to continue to compete so long as they can sell more cheaply. Instead they allocate a pre-specified quota of imports. They frequently supplement what are already significant tariffs that provide a price barrier, the textile case is a good example. Quantitative restrictions thus arbitrarily allocate trade independently of efficiency and cost considerations. Entry of new firms and new countries is made more difficult once the market is divided. The willingness of some established exporters to go along is explained by their guaranteed market shares and their share in the monopoly rents.

Import-competing firms obviously prefer the certainty of limited sales from abroad regardless of price differentials. Profits can be greater than they otherwise might be with even considerable tariff protection. Non-tariff barriers are also preferred because they can be more readily integrated into more elaborate governmental programs of sectoral assistance and even reduction of internal competition. Market forces take second place.

*If one relied only on GATT sources the respective percentages would be considerably lower: 11.3 percent, 5.4 percent, and 3.1 percent. The significant absolute and relative differences are evidence of the successful avoidance of GATT surveillance.
Importing countries have chosen the new protectionism because, paradoxically, the liberalization of trade has made tariff barriers a less usable instrument. Quantitative restrictions can more effectively satisfy domestic political pressures while avoiding the international consequences of retreat from GATT obligations. They also permit the industrial countries an edge in bilateral negotiations with smaller and more vulnerable developing country suppliers.

For all these reasons, it is not altogether surprising that despite some considerable successes on other fronts, the Tokyo Round was unable to make much progress on the core problem of safeguard actions and quantitative restrictions. We now turn to a closer look at what was accomplished in this most recent set of multilateral trade negotiations.

C. THE TOKYO ROUND RESULTS

The Tokyo Round was launched in 1973 as a further step in a process of trade liberalization that dates back to the original organization of GATT in 1947. This exercise was different in two important respects from the multilateral trade negotiations that preceded it.

For one, it gave greater prominence to the concerns of the developing countries. Among the basic objectives to be sought were "additional benefits for the international trade of the developing countries so as to achieve a substantial increase in their foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade... and a better balance between developing and developed countries in the sharing of advantages resulting from this expansion..." Reflecting this broader concern, 29 non-member developing countries participated in the negotiations. The total of 99 countries more than doubled the Kennedy Round’s 48.

For a second, the Tokyo Round explicitly confronted the issue of non-tariff barriers. This innovation led to a far-reaching effort to reshape the rules and procedures of the international trading system, going well beyond tariff-cutting per se.

The accomplishments of the Tokyo Round, as completed in April 1979, are a cause of considerable satisfaction. Seventeen developed countries agreed to a reduction in average tariff levels on industrial products of 34 percent (weighted by import shares) or 39 percent (simple average). The new average levels, at the conclusion of the eight-year round of implementation, will amount to 4.7 and 6.4 percent respectively. Almost 90 percent of dutiable industrial imports were subject to tariff concessions. The Swiss formula eventually adopted to calculate across-the-board cuts on industrial products provides greater harmonization through its greater reductions of higher tariffs than of lower ones. The standard deviation within individual industrial country tariff structures will decline by a fifth; the standard deviation across national tariff averages by a fourth.
Agreements were reached on six major codes to govern the conduct of international trade, four taking effect at the beginning of 1980, and those on Government Procurement and Customs Valuation at the beginning of 1981. A brief synopsis of these codes follows:

_The Government Procurement Code_ aims at eliminating pre-Tokyo Round GATT authorization of discrimination in government purchases. It requires government agencies to open non-military purchases to international competition. This area is perhaps the single largest new market created by the negotiations. A Committee on Government Procurement has been established to monitor implementation and to undertake an annual review.

Developing countries are provided the opportunity to negotiate mutually acceptable exclusions from the Code. Development needs and the requirements of regional or global arrangements among developing countries may justify permissible exceptions. Least developed countries may be granted the benefits of market access without reciprocal obligations.

_The Subsidies/Countervailing Duties Code_ is perhaps the most relevant to the interests of the developing countries. It seeks to restrict the use of subsidies, on the one hand, while limiting the application of countervailing duties on the other. The Code reiterates opposition to export subsidies in manufactures and extends the ban to minerals, and updates an illustrative list of unacceptable practices. Domestic subsidies, while conceded as an important policy instrument, are not to be used so as to harm seriously the trade of other participants. In return, all participants, including for the first time the United States, can apply countervailing duties only after material injury to a domestic industry has been established.* A committee of signatories has been set up to interpret the agreement, receive reports of national investigations and decisions, and supervise application of the dispute procedures specified. This Code goes farthest in the direction of separating consultation and conciliation from formal adjudication.

Developing countries receive explicit differential treatment. The Code recognizes subsidies as central to economic development programs, and a larger governmental role is accepted. Export subsidies on manufactures are permitted, with the proviso that they will not be used in a manner that prejudices seriously the trade and production of others. Absent, however, is an explicit economic theory-based justification of subsidies. Developing countries, as they advance, are expected to reduce or eliminate export subsidies and to be included under the general rules applicable to the developed countries.

_The Anti-Dumping Code_ updates the major provisions of the agreement negotiated during the Kennedy Round to make them consistent with the Code on

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*On this issue and others, of course, implementation is as important as formal agreement. The controversy surrounding early United States interpretation of the GATT subsidies code is a case in point. The United States has been reluctant to concede the prior application of an injury test before imposing countervailing duties, unless there is some agreement on subsidy reduction.32
Subsidies and Countervailing Duties. Developing countries wanted to establish a definition of dumping comparing the price of the product in question not to prices in the exporter’s home market, as is now the case, but to a like export product in some third country market. As a result two distinct texts were for a time available for signature. Subsequently, the developing country concerns were reflected in a revised, single code. The Committee on Anti-Dumping Practices, already in existence, is to administer the agreement and to receive reports of anti-dumping actions taken.

The Customs Valuation Code is intended to establish a uniform and fair system for the valuation of goods. The preferred standard adopted is a transaction price, descending through a hierarchy of four other substitutes if the necessary information is not available. This agreement was prompted by the fact that some major participants in trade, prominently the United States, do not adhere to the Brussels valuation standard. The economic effect is to prohibit artificial valuation at arbitrary levels to enhance the protective force of specified tariffs. As in the case of the other codes, implementation is delegated to a new committee.

Developing countries pressed for greater latitude for their customs administrations in dealing with transactions between “related persons,” where concern for fraud and unfair advantage is at issue. Again two texts were initially available for signature. The divergence was resolved by the time of the meeting of the Contracting Parties in November 1979; a Protocol satisfying the requirements of the developing countries and modifying the original agreement was annexed.

The Standards Code has as its basic goal to “ensure that technical regulations and standards, including packaging, marking and labelling requirements and methods for certifying conformity with technical regulations and standards do not create unnecessary obstacles to international trade.”

An implementing and review committee has been established to adjudicate disputes arising from the Code.

Developing countries are not expected to use international standards inappropriate to their development, financial and trade needs. Besides possible exemption from obligations under this agreement, developing countries are to receive technical assistance to avoid related obstacles to the expansion and diversification of their exports.

The Import Licensing Code is aimed at simplifying import licensing procedures and ensuring their fair and equitable application. Automatic licensing should be administered without restricting the flow of trade. Discretionary licensing is recognized as a legitimate procedure to control the use of foreign exchange, but should be accompanied by equitable distribution of permits. As in the case of other codes, a new committee of signatories was also established.

“Special consideration should be given to those importers importing products originating in the developing countries and, in particular, the least developed countries.” No further specification is provided, nor indeed easily
constructed. Since the intent of the Code is to establish uniform rules and enforce equal access, preferential treatment is directly contradictory.

* * *

A third area of progress in the Tokyo Round was modification of the GATT framework to make it more effective. Changes were directed to two principal objectives. One was to strengthen the mechanisms for resolution of trade disputes within GATT, recognizing that the new protectionism in recent years has proceeded by direct negotiation outside of GATT. No major revision of procedures is involved, but some clarification of rights and obligations has been achieved. This is in addition to the elaborate provisions set up under each of the new codes, leading one informed observer to speak of them as "mini-GATTs". The institutional issues raised by the relationship of these new committees to the GATT Secretariat are still to be clarified.

The second goal was to incorporate a secure legal basis for special and preferential treatment for the benefit of developing countries. These changes also exempt developing countries from fully reciprocal concessions to the developed. In return, the developing countries are required to accept the principle of graduation to full responsibilities as their income levels rise.

In view of the scope of the code agreements and the magnitude of tariff cuts—and the explicit recognition of special status for developing countries—the Tokyo Round is a significant forward step in dealing with North-South trade issues. That it evoked a decidedly lukewarm response from developing countries, however, is also true. Although 99 countries participated in the talks, only 23 initialed the full set of arrangements in April 1979. These included the major industrialized countries and some East European centrally planned economies. Argentina was the only developing country that signed the entire package. Subsequently, because the codes apply only to signatories, an exception to most-favored-nation treatment, others have found it in their interest to subscribe to some of them.

Developing country dissatisfaction has retreated from its high water mark at the UNCTAD V meeting in Manila in May 1979, less than a month after the procès-verbal of the Tokyo Round was initialed. At that time, displeasure was directed at the inadequacy of tariff cuts of interest, and their adverse impact on preferences; at the failure to give sufficient weight to the important role of export and other subsidies as a necessary policy instrument for developing countries, compounded by the insistence on "graduation"; at the absence of liberalization of existing quantitative restrictions; and at the inability to reach agreement on a safeguards code to deter new applications of protectionism.

These reactions have a factual basis. The structure of tariff reductions was less favorable to products exported by the developing than by industrialized countries. Import-weighted average tariffs were reduced by 27 percent for
products of interest to developing countries compared to 34 percent overall (although using simple averages shows the two figures to be comparable). The difference, of course, derives from the fact that labor-intensive sectors like textiles, clothing, finished leather and rubber experienced less than average reductions. Some sensitive products were carefully excluded from discussion in the first instance: The United States Trade Act of 1974 explicitly prohibited United States negotiators from agreeing to tariff reductions on items subject to orderly marketing arrangements. As a consequence, the average tariff reduction on manufactures excluded from GSP coverage—because of their sensitivity—was only 16 percent. Still, the weighted average post-MTN tariff level of 5.7 percent for products of interest to developing countries is only one percentage point higher than the 4.7 percent for all industrial country imports of manufactures.

An additional dissatisfaction stems from the continuation of tariff escalation. Because tariffs are higher on finished manufactures than on raw materials or semi-processed inputs, the rate of effective protection on final products is magnified. Industrial countries can then buy inputs and fabricate them domestically. Although some harmonization was achieved through the Tokyo Round across-the-board formula, it has not eliminated this source of complaint. The tariff differential between semi-manufactures and raw materials will be reduced from 5 to about 3½ points; between finished manufactures and semi-manufactures from 4 to about 2½ points.

But perhaps most fundamental was the opposition to erosion of the preferential margins for developing countries under the Generalized System of Preferences. In other words, broad liberalization is equivalent to adverse differential treatment, and exactly as some critics contended, the system of preferences tends to create a developing country bias against tariff reduction.

Estimates by the GATT Secretariat indicate that new preferential concessions in manufactures will compensate for just about the small volume of imports that will completely lose preferential treatment because of duty free status under the new MTN tariffs. Rather, the source of contention is the projection that preferences on industrial products will decline from 10.1 to 6.6 percent overall, and from 8.5 to 4.5 percent for those GSP items not subject to special limitations. UNCTAD argues that developing country benefits from general trade creation owing to lower tariffs will be more than offset by the reduction of developing country exports as GSP margins are eroded and developed country suppliers are substituted.

The debate is a replay of the original question of whether preferences or generalized liberalization is more favorable for developing countries. On the whole, most calculations favor the latter, simply because the new market opened by lower tariffs to all external competition is much larger than the market share of existing trade to be gained at the expense of developed country

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suppliers. Since more than half of GSP trade is subject to special limitations of one form or another, and preferences have not been fully utilized, that conclusion is further reinforced. The balance between the two effects ultimately depends on the developing country capacity to share in generalized trade creation. That capacity is unknown, while the erosion of preferential competitive advantage is certain.

As far as tariff cuts are concerned, therefore, the developing countries are right to complain that reductions fail to live up to the express commitment to an improved competitive position vis-à-vis the developed countries. The results instead were most positive in continued liberalization whose benefits will potentially accrue to the developing countries as they diversify their production and trade. Those concessions were obtained with minimal reciprocity.

The reservations on the subsidies code, and lack of enthusiasm for the differential treatment accorded in the others, reflect the same disappointment at the absence of clearer mandated advantages. In most cases, language is vague and permissive, not binding. A prominent exception, and a concrete advance, is the injury requirement now embodied in United States countervailing duty legislation. But that aside, the determination of special and preferential treatment will depend upon the implementation of the codes on a case by case basis. In its preamble, for example, the subsidies code emphasizes that “these effects are to be assessed in giving due account to the internal economic situation of the signatories concerned as well as the state of international economic and monetary relations.” Will this permit developing countries to offset exchange rate overvaluation through grants to exporters without falling afoul of countervailing measures? Will industrial country definitions of injury be generous or defensive of domestic political interests? Already, as noted earlier, United States interpretation seems to be minimalist.

Much will therefore depend upon implementation. The codes are an important diplomatic accomplishment with considerable promise. But the underlying economic tensions remain. Developing countries require rapidly increasing exports in a world of more slowly growing trade. There are as yet no proven and enforceable rules that define fair trade to the entire satisfaction of both the industrial and developing countries. Nor, despite much more elaborate dispute settlement mechanisms, is there evidence that GATT can defend the interests of the developing countries against those of the industrialized. It is a mistake to appeal only to the demonstrated advances in the formulation of the language as reason for the developing countries to take satisfaction in the outcome. The cool reception owes itself to a justifiable preoccupation with future concrete results.

That is, of course, why the failure to achieve a rollback in quantitative restrictions, or to agree on a safeguards code, especially colors the developing country reaction. The problem of competition and import penetration will not diminish. Quotas that are hastily invoked to avert market disruption are a
continuing threat, and are not fully controlled within the GATT framework. Surveillance is incomplete, despite the decision of the Contracting Parties in November 1979 to establish a Sub-Committee “to examine any case of future protective action by developed countries against imports from developing countries in the light of relevant provisions of the GATT...”

Some of the ambiguity of the Tokyo Round lies in its attempt to reconcile the principles of liberalism with the reality of intervention. As a consequence its message is mixed. Some of the new codes, principally those on government procurement, standards and customs valuation clearly reflect a preference for limited interference with market forces. On the other hand, the subsidies code explicitly recognizes the legitimacy and necessity of an active government role, as well as preferential treatment for developing countries. The creation of new Committees to deal with specific trade problems, like those established to supervise the codes, may also encourage a more managed approach.

This ambiguity reflects the real world. It also is characterized by another important dimension—the conflict between universal rules and preferential treatment. Not only does the GATT framework now accept the latter for developing countries, but the applicability of the new codes is limited to signatories. The breach of the most-favored-nation principle is only partially compensated by granting full observer status in the relevant Committee to non-signatories. How such a variety of rights and obligations will be comprehended within a single trading system is still to be seen.

Ultimately there must remain disappointment at the failure of the Tokyo Round to secure a more enthusiastic reception by the developing countries. Even as they accept and abide by the results, their reserve is disturbing. Developing countries promise to emerge as larger factors in world trade over the next two decades, and the rapidity of their growth and structural change poses a major challenge. The Tokyo Round did not entirely succeed in integrating these countries more fully into a rule-oriented world trading system, and persuading them of benefits equivalent to the responsibilities evident in such a system.

D. CONCLUSION

This review of policies impinging on North-South trade reveals the interplay of liberal and interventionist tendencies through the postwar period. As long as U.S. economic power and leadership was committed to liberalization, that trend clearly dominated. Trade flourished, particularly in manufactures.

By the end of the 1960s the changing balance of competitiveness among the industrialized countries already began to elicit increased resistance to liberal policies. Developing countries posed an additional consideration. Their pressure for differential treatment, and its concession in the Generalized System of Preferences, was further proof that the trading system was not a pure one. Their
growing exports of manufactures, a harbinger of the potential of their enhanced industrial capability, provoked another breach. The policies we now associate with the new protectionism owe much of their support to the fears of unfair, low-wage developing country competition.

Such protectionism was reinforced by the slowing of industrial country growth after 1973 and the consequent deceleration in the record expansion of world trade. Through the 1970s, new restrictions, quantitative in nature and selective in application, have expanded. These have impinged on the new developing country exporters just at a time when larger oil bills and debt servicing obligations have compelled them to increase their earnings of foreign exchange.

In such an environment, the Tokyo Round agreement to reduce tariffs and to confront non-tariff barriers to trade through new codes and procedures is especially welcome. Despite their limitations and ambiguities, the results of the multilateral trade negotiations demonstrate continuing commitment by the industrialized countries to trying to make an open trading system work.

That task is a continuing one, and one in which the developing countries retain a basic interest. North-South trade in manufactures is a vital element in the development strategies of most Third World nations. In the next chapter, we consider what policies should and can be implemented to promote a more tranquil and less conflictive 1980s and 1990s.
V. Policy Priorities

The evolution of the global economy in the next several years, and decades, poses a formidable challenge to multilateral economic diplomacy. Quite apart from the present vexing specter of stagflation, larger processes are at work. Economic power is becoming more diffuse. In addition to convergence among the industrial countries, and the new competitive forces unleashed, new oil-wealthy actors suddenly count. Saudi Arabia, with its financial assets and petroleum capacity, has been vaulted to a new international role, typified by its importance to such international organizations as the World Bank and the International Monetary Fund. The newly industrializing countries also have made their present, and potential, weight felt.

This generalized diffusion has been accompanied by a weakened position of the United States. There is no longer a single, economically dominant leader to enforce a liberal regime. It is a role that sometimes confers national advantage, but also requires a broad conception of self-interest. A multipolar power structure weakens definition and pursuit of the general interest. As Charles Kindleberger has persuasively argued, pluralism in the international system “tends to under-produce vital public goods and to over-produce a public bad, nationalism.”

Britain was the central country in an earlier era of nineteenth century liberal trade. Its diminishing authority at century’s end coincided with the spread of protectionism. Its much weakened position, and lack of a substitute, contributed to the interwar breakdown of the international economy.

An indisputedly dominant United States presided over the Bretton Woods system after the Second World War. Within that framework, it especially committed itself to European and Japanese economic recovery. Larger political aims overrode purely economic calculations in motivating support for the European Community and an open, and unreciprocated, market for Japanese exports.

North-South trade in manufactures now poses a new direct test to the adequacy of economic cooperation on a global scale. Behind the consensus that developing country industrial capacity will continue to expand, there exist important differences in attitudes about the appropriate response. Three views
merit discussion. One is basically sanguine about the possibilities of absorbing rising imports, and hence of preserving liberalism. A second is more pessimistic about the capability of the industrial countries to make liberal policies work, at least in the short run. Those who share this interpretation seek to substitute managed trade as a way of averting international economic disorder. The third view is perhaps the prevailing attitude in the South: apprehension that market access will be more limited in the future; a claim for preferential treatment; and a sense that new rules and institutions are necessary to govern trade relations.

We first examine each of these positions, and then offer our own sense of the appropriate policy priorities for Trilateral countries.

A. THREE POLICY PERSPECTIVES

An Optimistic View of Market Processes
Arguments in favor of lessening pressure on liberal practices over time depend on two central propositions: (1) Export diversification within the South will lessen the concentration of import penetration in certain labor-intensive sectors, a concentration that characterized the first wave of NIC exports. (2) Expanding intra-industry trade, perhaps intra-firm trade in particular, will diminish protectionist sentiments of domestic manufacturers and workers and make free trade policies feasible.

With regard to export diversification in the South, we commented earlier upon the considerable validity of this "stages" approach to comparative advantage. At the same time its limits require notice. Diversification will not prevent a broad range of new sectors from added import competition from developing countries if high export growth continues. And precisely because of comparative advantage these too will be sectors of relatively lesser labor skills, standardized production, and so forth, where labor previously displaced might be expected to find employment. Other lower income developing countries will eventually replace the more advanced as suppliers of textiles and clothing, so there will be no relief beyond that provided by technological upgrading or by dependence on permanent import limitations.

The appeal of the intra-industry trade argument also has bounds. While it is true that much exchange in specialized products characterizes trade among the developed countries—particularly within Europe and with the United States—it is important to remember that very large income differentials currently apply between even the most advanced of the oil-importing developing countries and the industrialized. The former will still find it to their advantage to specialize in "standard" goods. Interpenetration of investment, important among the developed countries, is unlikely to play the same role in fostering intra-industry trade among countries with such different production profiles.
Helleiner transforms the intra-industry perspective into an intra-firm emphasis, which he sees as the likely wave of the international trading future. He emphasizes the rapid growth in international trade under United States and European rules requiring imports assembled offshore to pay duties only on value added. Thus, under the relevant sections (806.30 and 807.00) of the United States Tariff Code, imports expanded 32 percent a year between 1970 and 1977. He concludes:

The possibilities of intra-firm trade, however, leave rather more room for optimism with respect to the capacity of firms and industries in developed countries to adapt to increasing LDC competition. . . . Where there is no intra-firm trade, there is no one to "manage" the trade (or the investment) and so to adjust smoothly, except the government; indeed protection pressures and policies do seem to be concentrated in those sectors of LDC imports in which intra-firm trade is at a minimum.58

For Helleiner, but also for others less disposed to LDC imports, policy should increasingly focus on the conduct and activities of the transnationals.

Although an important aspect of present and potential imports of manufactures, intra-firm activities represented only about one third of United States imports from developing countries in 1977. They are relatively more important in newer areas like semi-conductors and appliances than in more traditional textiles, clothing and footwear.59 Second, under United States tariff provisions 806.30 and 807.00 developing countries account for a minority of imports, 44 percent in 1978, with a slowing since the establishment of the Generalized System of Preferences in 1976; the four largest beneficiaries are West Germany, Mexico, Japan and Canada.60 Third, these provisions, when used, are still subject to applicable quantitative restrictions; to the extent the new imports begin to threaten, as in television sets, there is still the threat of quotas.

Whether imports are intra-firm or intra-industry, the confidence that they will ease significantly the adjustment required in the industrial countries is diluted by two basic limitations. First, as noted by Jan Tumlir, an increasing intra-industry (or intra-firm) composition of imports cannot at the same time imply equal gains from trade and lesser adjustment difficulties.61 If it is easier to adjust, it is in part because trade yields smaller benefits. Developing country imports under 807.00 are a good example. They were duty free to the extent of 49 percent of their value in 1978, because exported United States components were included to that extent. That means that each dollar of exports had a direct offsetting foreign exchange input of 49 cents. Exports would have to be twice as large to yield the same net foreign exchange proceeds, and the same national income, as exports with full domestic content.

Second, it is too facile to extrapolate a greater political acceptance of liberal trade even under these circumstances. The linear rules for tariff reduction adopted in the Kennedy and Tokyo Rounds reduce the impact of special
treatment where trade is intra-industry. Protection for textiles, clothing and footwear is not necessarily the consequence of limited intra-industry linkages, but rather a large and rapidly increased import penetration. Indeed, textiles and clothing are among the products that figure heavily in 807.00 imports. Intra-industry activity in this sector is an important component in Mexican exports to the United States. Border assembly has been opposed by U.S. labor unions, attacked as runaway industry in search of low wages.

Restrictions on color television imports, another favored 807.00 import, may presage extension of protective devices to new areas of growing import penetration, intra-industry or not. Certainly the turnabout in the stance of the United States automobile industry toward free trade was not fully anticipated. An astute academic commentator only recently had invoked the automotive sector in behalf of "the hypothesis that international production in the economic structure reduces tension in the international political structure. . . . The automotive sector . . . has . . . experienced rapid Japanese invasion of other national markets—but . . . most of the biggest producers have developed international production strategies. . . . The result has been that there has been little international conflict or diplomatic bargaining over market shares."

All in all, then, it is uncautious to presume that a liberal posture will easily prevail. There are encouraging aspects to changing specialization of developing country productive structures and consequent effects on the composition of exports. Some of the greatest pressures have already been felt; but that does not preclude new appeals to a protective response. Analogy with the relative ease of the postwar liberalization of trade among the industrial countries cannot be extended too far. Current fears about the competitive advantage of Japan reveal the precariousness of that appeal. So, too, do the increasing warnings that foreign trade is "increasingly distorted by proliferation of requirements and incentive conditions imposed on corporations by foreign governments."

A "Managed" Trade Solution?
Those who foresee potential absorptive problems are more likely to advocate protectionist responses. These are justified not as a substitute for adjustment but as regulation of it. Protection is invoked as a temporary means for coping with a sudden surge of import competition, providing a necessary umbrella for restructuring domestic capacity. This is a mature industry argument for intervention.

In some cases, relief has been sought through multilateral arrangements rather than bilateral or unilateral action. Such is the case with the Multi-Fiber Arrangement, in which the United States played a principal role in seeking to broaden the management of trade. In other sectors, like steel, shipbuilding, electronics, automobiles, and others, protective actions have been taken predominantly at the national (and European Community) level. This reflects as
much the circumstances of significant national interest in the specific sector as
the underlying economics of excess and obsolescent capacity. Advocates of
managed trade tend to see virtue in a more generalized and planned approach.

The appeal of a "managed" response to absorption of developing country
imports is considerable. It holds out the prospect of satisfying domestic pro-
ducers as well as guaranteeing growing exports to the exporters of the South.
And it promises to accomplish these objectives without wasteful and costly
unutilized capacity and unemployment in the industrialized countries or da-
maged development prospects for developing countries.

In practice, the accomplishments have been more partial. Actions taken have
frequently turned out to freeze the status quo rather than facilitate change. Un-
der the British Temporary Employment Subsidy Scheme, the textile, clothing
and footwear industries received assistance to prevent discharge of workers,
thus discouraging transition. Such schemes can easily promote new rigidities
rather than new flexibilities; and what was initially temporary, turns out to be
permanent. The IMF's 1980 report on restrictive practices emphasizes this
institutionalization.64

The sectoral quality of the new protectionism is also deceptive. Non-adjust-
ment in any single area affects the competitiveness of the entire economy over
time, as market signals become distorted. Import competition becomes a rally-
ing cry for public subsidy, direct and indirect through protection, even when it
is not the proximate source of the problem. What one special interest can
achieve, another can aspire to.

At the same time, the quantitative and specific character of the protection
may prove less effective than anticipated. New producers substitute for old,
sometimes with the active participation of former exporters who set up facilities
elsewhere. New products are developed to take advantage of loopholes in the
legislation, thus widening the scope of competition. The domestic industry is
frustrated because it does not have the means for successful adjustment, while
exporters remain uncertain about future market access.

If it is difficult to proceed at a national level, the problems are even more
complicated in multilateral accords, as experience with the Multi-Fiber Ar-
rangegement indicates. Differences among both developing and industrialized
countries are papered over in the name of formal agreement. Essential power
has resided up to now with the industrialized countries. They have the power
over their markets. Instead of a presumably global negotiation, the implement-
ing decisions soon descend to a bilateral level, and an inherently unequal one.
Developing countries have little alternative but to accept what is offered. Com-
petition among the industrial countries reduces to the lowest common denomi-
inator of the least generous rather than the most generous.

For all its apparent attractiveness, therefore, the planned or managed ap-
proach is subject to the basic limitation of trying to reconcile irreconcilables.
Expanded trade and accelerated adjustment do not go hand in hand with greater protection and sheltered employment. At some point one of the objectives must yield, and it inevitably is the trend growth in imports of manufactures. The classic example is the call for much lower quotas in the next round of the MFA.

There is another flaw as well. Such a managed approach is inherently unstable. Fixed shares—both for importers and exporters—do not adequately reflect changing conditions and become difficult to enforce over time. At the margin, each country can find ways to improve upon its situation by some new restriction or some device to evade quotas. It is ultimately resistance to apparent national interest that makes a free market best for all, if not necessarily best for each. Such abnegation is absent in a restrictive setting, and exposes the constant danger of a destructive cycle of retaliation. Ironically, a managed system is also one that is fundamentally ruleless: national interest is too easily invoked and defended when intervention is the norm.

**Developing Country Concerns**

The new order which the majority of developing countries advocates to govern North-South trade in manufactures is adherence to the liberal principles of the old. Particularly among the NICs that sentiment is strong. For others, views are more mixed, ranging from preference for greater South-South trade to limited enthusiasm for the external market as a whole. Most are quick to point out the hypocrisy of liberalism as the hallmark of industrialized country ideology rather than practice. Slow and uncertain industrial country growth, coupled with protectionism, combine to limit the market for exports.

The consensus is succinctly and effectively argued in the Brandt Commission report:

> This closing-in of the world's open trading system occurring hand-in-hand with the deepening economic crisis is a very serious prospect. It threatens the trade among industrialized countries as well. But the exports from developing countries meet the highest barriers... Much will hinge on the principles to which trading countries subscribe, in their own and in the joint interest. Protectionism by industrialized countries against exports of developing countries should be rolled back; this should be facilitated by improving institutional machinery and new trading rules and principles.  

Extension of the Generalized System of Preferences is advocated, as well as fuller concession of the preferential treatment for developing countries now incorporated in the GATT. Closer coordination between UNCTAD and GATT is called for, and in the longer term, a possible new International Trade Organization. What is striking, however, is the relatively limited attention to new rules and machinery. The emphasis is upon practical measures "to liberalize the international trading system."
Such an emphasis is a measure of the practical gains developing countries have achieved through this trading system in recent years, and the advantages anticipated through its continuation. Exports of manufactures have become more important, and ideological contention and confrontation have diminished. While special treatment is still an important part of the developing country position, there has also been explicit concession to the concept of graduation to greater responsibilities within the trade regime.

This convergence has yielded dividends in the North-South dialogue. Practical progress has been made. The Tokyo Round saw more active participation of developing countries than ever before. Despite some misgivings, 21 developing countries have already subscribed to one or more parts of the agreement. GATT has upgraded the issue of industrial country protectionism against developing countries. In its last report it went so far as to state: "GATT recognizes its responsibility, as the organization setting the rules for most of world trade, to work to open up export opportunities for the developing countries." 66

Developing countries still remain to be convinced that the industrial countries are prepared to accommodate to the shifts in comparative advantage that are underway. For now the attitude is one of watchful waiting. A new surge of protectionism would undoubtedly evoke a more militant and different response. On the one hand, there would be more vigorous and active efforts to explore and exploit markets in the South; on the other, there would be repercussions upon financial relationships with the North. Debt service now looms large in the balance of payments of many NICs and would-be NICs. There is now an export imperative driving North-South relations that has heretofore not been there. Trade no longer has the luxury of being considered in isolation. Exports of manufactures from developing countries cannot be left to benign neglect.

B. POLICY PRIORITIES FOR TRILATERAL COUNTRIES

The general directions of policy required on the part of the Trilateral countries are rather clear. They require cooperative efforts, among Trilateral countries themselves principally but sometimes in tandem with developing countries to:

- restore and sustain high rates of growth in the North,
- relate national strategies of industrial growth to international trading opportunities and desist from protectionism,
- build upon the advances made in the Tokyo Round and repair some of its deficiencies,
- assure a continuing flow of capital to developing countries to finance continuing development, and
- encourage expansion of industrial trade within the South.
Developing countries share some obligation in the maintenance of a liberal trading regime. They are not exempt from nationalist tendencies that can wreak havoc with rules that govern international behavior. On their part, the most advanced among them will have to take seriously the responsibilities of graduation. Mercantilist policies that push exports by any means will evoke a response in kind. Quantitative export requirements, linked sometimes to favorable treatment of foreign affiliates, are no more acceptable than corresponding protection against imports. But aggressive industrial country review of national development policies to ferret out and punish all practices required to stimulate developing country industry will prove counterproductive, and a new form of protectionism. Some subsidies to exports are unfortunately necessitated by policies of continuing import restrictions in the South that also vex more industrialized country exporters. But some are also applied for reasons that do not contradict the underpinnings of a freer global regime. Premature graduation must also be avoided.

Our program is explicitly multilateral in recognition of the global reach of the changes in comparative advantage that are underway. Individual bilateral negotiations are no answer in a world of widening developing country industrial and export capacity. NICs have on occasion managed well in such circumstances. Those favorable results cannot be counted upon nor can hegemonic leadership of the United States or any other single power provide a solution in the years ahead. A more cooperative structure will be required. We resist the temptation to place these responsibilities in a new institutional form. Rather, the required harmonization should evolve from existing organizations, already available in abundant number. OECD, GATT, the World Bank, the International Monetary Fund, UNCTAD, among even others, all deal with pieces of the problem. Coordination is needed, but it is not clear that a new comprehensive organization will serve better than a more inclusive GATT. Newly broadened and more attentive to developing country problems, GATT should have a chance to prove that it can satisfy its clientele from the South as well as the industrialized countries.

Our program is explicitly biased to more rather than less trade, in recognition of the special role that trade can play in aiding growth of the world economy as a whole. If needed innovation and renovation are averted, industrial country productive structures will soon become obsolete, turning private gains of protected enterprises and workers into social costs. If trade growth slows, the present financial structure predicated upon more rapid expansion will feel the impact and reinforce decline.

These steps are limited and pragmatic, and recognize that the industrial countries will continue to seek to safeguard their manufacturing sectors and to require a vital industrial base. They are not a matter for legislative enactment or integral implementation. A reliable and continuing policy posture in different settings and
circumstances adds up to a liberal trade regime. Within that regime, only a prior sensitivity to the special problems that can be created by developing country exports will prevent these problems from overwhelming the system.

**Restoration of Sustained Economic Growth in the North**

Sustained recovery from the slower real growth of recent years in many of the industrialized countries will make perhaps the most significant contribution to averting potential trade conflicts with the South. The North remains, and will continue to be, the best customer for the manufactures of the developing countries in an interdependent world. Two-thirds of the South’s industrial exports go to the OECD countries. More rapid growth in the industrialized countries creates larger markets for these exports at smaller cost to domestic producers. More rapid growth facilitates and eases the transfer of labor from declining to more dynamic sectors. It creates more confident and less defensive government responses to particularistic interests in search of protection against import competition. In this context small is not beautiful.

This is not the place to offer detailed prescriptions for the means to break the vicious circle of inflation and recession that still grips many countries. It is important to emphasize here that protectionist measures will not contribute to a satisfactory way out. Supply-side economics must be efficiency economics, not beggar-thy-neighbor economics. The same cooperation that is essential to recovery is necessary to design and implement common and effective trade policies. Measures to resolve North-South trade issues will only succeed in conditions of generalized prosperity and shared responsibilities among the industrialized countries.

**Positive Adjustment Policies**

Policies that promote adequate adjustment to import competition are the centerpiece of any program to encourage vigorous industrial trade between North and South. They must comprehend not only compensation to losers but also measures to hasten the transition to a more viable and efficient economic structure.

Compensatory programs are a recognition that the costs and benefits of expanded trade accrue to different economic actors. Workers who lose out on jobs or face the prospect of lower wages in order to keep them take little satisfaction in the expanded opportunities that accrue to a larger export sector or the improved welfare enjoyed by consumers who experience lower prices than they otherwise might. Equity, and political common sense, require some redistribution in their behalf. Asset holders usually fare better. Equipment does not always fully depreciate, and can find continuing use, if not domestically, then abroad. Plant can be sold for other uses, or upgraded to permit continuing production in a related but more capital-intensive line. Such a differential ability to defend themselves (and voter strength) helps to explain why compensatory programs are geared toward workers.
There seems to be a widespread sense that compensation programs, *per se*, do not work very well. United States trade adjustment assistance is a prominent example precisely because it is oriented almost exclusively to compensation. There are long, bureaucratic delays that plague the timely delivery of benefits. In 1976 it required 14 months, on average, for workers to receive their first benefits, exactly the period when wage income was most affected. Certification of injury from imports was a long process, with as many cases denied as approved. Unpredictability is clearly a problem.

More fundamentally, compensation did not seem to contribute to, or reinforce, adjustment. Many workers receiving benefits were temporarily rather than permanently displaced, returning to the same sector and even firm. According to a recent survey, only 1 out of every 30 adjustment recipients has undergone training; 1 out of 200 has received a job-search allowance; and 1 out of 350 received a relocation allowance. Those displaced by trade do suffer larger income losses than experienced by typical unemployment insurance recipients. Yet, because the compensation paid has not, on the whole, financed new jobs, the larger benefits have been singled out as unwarranted. The Reagan Administration has moved against such compensation as one of its first austerity-reducing priorities.

This United States evidence corresponds to the effects of British employment subsidies, say, and other industrial policies that reinforce rather than change the production profile. Simple payments, rather than jobs, cannot purchase political support of labor for freer trade policies. But the contrary is also true. Elimination of compensation, without a substitute, can hardly win labor over from its protectionist leanings.

Attractive as the idea of trade-related compensation initially seems, therefore, other strategies of trade adjustment are needed. They must be imbedded within a more general anticipatory industrial policy. Within such a context trade looms as only one among the dynamic factors impelling industrial realignment and emphasizing productivity change. But it is an important one in helping to signal where expansion will be profitable and contraction inevitable.

Industrial policies are not in themselves panaceas, as diverse national experiences suggest. Japan has been demonstrably more successful than Great Britain, for example. Considerable interest now exists in learning from those experiences. Even believers in market signals advocate some kind of planning to make response more efficient. As *Business Week* puts it in its special Reindustrialization issue: "But there seems no alternative to social agreement on those sectors of the economy that must be encouraged." Such adjustment policy cannot simply rely on picking the winners. Some basic sectors in some countries—steel, automobiles, etc.—will not be phased out. Those sectors also require attention by reason of strategic and economic importance. To abandon them is not realistic and runs the risk of permanent obsolescence, safe-
guarded by protective barriers that inevitably generalize. Such sectors are not necessarily condemned to inefficiency by reason of labor intensity or limited technological inputs. They suffer from maturity, but need not be beyond revival.

The difficult task is both to pick new winners and also to preserve some old winners in a more consciously international economic context. It is, perhaps, too much (to paraphrase Business Week) to say that there seems "no alternative to social agreement on those sectors of the international economy that must be encouraged;" but it is also too little to allow completely independent national decisions to proliferate excess industrial capacity. Such capacity can only come back to haunt in the form of defensive and protectionist trade policies.

More information, at a sectoral level, of what lies ahead for the world economy should be made available on a regular basis. Foreknowledge of the new competitive pressures that will be brought to bear on the industrialized economies is already at hand. Sectors producing standardized outputs and dependent upon standard inputs of capital and labor, with little continuing technical progress, are candidates for trouble. In some instances, progressive decline will be the right response; in others, new technological inputs through research and development will be needed now to stay ahead of future competition.

As Lawrence Franko suggests, "Foresight could provide one means of squaring the circle of the long-term search for the free trade optimum and the immediate problems of industries in trouble." That foresight must be global, and responsibility for its dissemination must be lodged internationally. Such a function would be an excellent addition to GATT, and a constructive supplement to the new monitoring it is considering of national policies of structural adjustment. In cooperation with other institutions like UNCTAD and the World Bank, a detailed body of reliable information could be made regularly available. It could inform national decisions as well as figure in the agenda of world trade discussions including industrial and developing countries alike.

In emphasizing the importance of sectorally disaggregated information, we do not intend to denigrate the role of broader industrialized country incentives to research and development expenditures. Industrial growth, to be sustained, requires new products and new ways of producing the old. The technological frontier has by no means been fully explored and exploited. The investment climate across a wide spectrum of activities can be influenced by breakthroughs in just a single, central sector. Energy is obviously now a prime candidate. New energy sources and new means to reduce consumption can reduce uncertainty and restore profitability to industrial capital formation.

The market supplementation of effective adjustment policies is the meaningful alternative to the market intervention of protection in a world of rapid shifts in productive capacity. Realistically, there will be trade restrictions in such a dynamic setting, if only for safeguard purposes. Such import restrictions
should trigger longer-term efforts to adjust to the dislocation. Only the capacity
to change is a reliable safeguard in the long run.

Adjustment policy is likely to prove the key component in North-South trade
relations as they evolve in the next decades. To be fully effective, it cannot be
left exclusively to the national domain. Potential international suppliers also
have a stake. Those who call for more careful scrutiny of national incentives
and regulations that indirectly contribute to unfair trade will be more persuasive
of their pro-trade intent if they also include on the agenda industrial country
adjustment responses to imports. An open and interdependent global economy,
particularly if its growth is lower than in the past, requires an international
perspective on production as well as trade.

Specific Trade Measures
The Tokyo Round, despite its progress on many fronts, proved disappointing to
the developing countries, as we have seen. It is unlikely that a new round of
multilateral negotiations will take place for several years. In the interim, efforts
are required to resolve still pressing trade issues. The Committee on Trade and
Development of GATT has been given larger responsibilities. In addition to
trade liberalization in areas of special interest to developing countries and im-
plementation of the "enabling clause" authorizing special and preferential
treatment, two other topics have been delegated to new Sub-Committees. One
is examination of protective restrictions imposed by industrialized countries
against imports from developing countries; the other is more beneficial treat-
ment of the least developed countries.

Beyond this continuing study and, hopefully, eventual negotiation on such
matters as tropical products, tariff escalation, non-tariff barriers, and advance
implementation of Tokyo Round concessions—all identified as priorities by the
Committee—two further issues are worthy of mention here. One is the still
incomplete safeguards code; the other tariff preferences.

Within GATT, negotiations have not yet led to a new code that would repair
the widespread neglect of Article XIX's present provisions for emergency ac-
tion to safeguard against imports. The new protectionism has consciously
avoided multilateral supervision for a very good reason: It has utilized selective
discriminatory controls. Agreement on a code has not been possible for the
same reason. While selectivity was approved as a working hypothesis at the end
of 1979 by both developed and developing country participants, that consensus
was not translated into an acceptable code. Those European countries that wish
a code granting substantial national autonomy and allowing stronger and more
immediate response have so far rejected a conditional selectivity predicated on
carefully and specifically defined criteria. Developing countries have sought to
limit selectivity as much as possible—for an obvious reason. They have been
among the special targets of recent quantitative restriction.
Discrimination among developing countries also presents itself as a central issue in the negotiations now underway for renewal of the Multi-Fiber Arrangement. Lower import quotas are virtually a certainty for established NIC exporters, with more liberal treatment of other developing countries. Even the large exporters seem to agree, but call for unlimited growth for small producers while maintaining the present 6 percent increase for themselves.

Such selectivity is not efficient, because it diverts production artificially to higher cost producers. But it is tolerable if the beneficiaries are indeed the least developed countries whose initial costs can be expected to fall as trade increases. Selectivity also has to be accompanied by free market access in the other exports that the NICs will have to substitute; otherwise it is a formula for re-dividing exports among developing countries while inhibiting aggregate growth.

The importance of a safeguards code to North-South trade cannot be overemphasized. Developing countries are the weaker party in bilateral negotiations conducted without regard to an accepted set of rules. On occasion, some may benefit by reason of special geo-political considerations, but even the exceptions further weaken the liberal trade regime. Safeguard action against imports is now a substitute for adjustment. A new code must tie structural change to temporary and carefully circumscribed resort to trade restrictions.

As noted above, the Brandt Commission has endorsed extension and binding of the Generalized System of Preferences so that they cannot be unilaterally terminated. Benefits to developing countries will necessarily decline with the lower Tokyo Round tariffs, and these countries are concerned with the consequences. Up to now, the NICs have been the principal absolute beneficiaries of preferences. That is not surprising in view of their very large share in total trade of manufactures. By reason of their quantitative importance, the large exporters have begun to hit quota ceilings limiting eligibility on particular products. This graduation is apt, and gives enhanced merit to extending the system so that more of the least developed countries can derive a differential advantage.

There are dangers, however, in the permanence of a preferential system: It does create a bias against generalized tariff reduction because of the loss of preferential margins, as was seen in the Tokyo Round. Yet, unless more serious efforts are made to reduce tariff escalation and to accommodate differential treatment to the competitive capabilities of many of the developing countries, preferences remain a proven source of opportunity for expanded exports. They should be treated as a transitional aid, like export subsidies, in permitting developing countries to integrate more satisfactorily in the world economy. Their limitation to products that do not threaten domestic production diversifies developing country exports along lines that avert a protectionist response. This is no time to phase the system out, before the poorest will have had a chance to benefit, and in a climate of uncertainty concerning the expansion of trade.
Maintenance of Resource Flow to the South

Oil-importing developing countries had accumulated by the end of 1980 more than $300 billion in medium- and long-term debt, an increasing share in the hands of private creditors. This debt has escalated by a factor of almost five in the last decade, and half as much in real terms. That financial transfer from North to South helps to explain why developing countries have sustained their growth despite international economic recession. That transfer also helps to explain the still growing exports of manufactures from the North to the oil-importing developing countries despite much more costly petroleum imports. Finally, that transfer helps to explain the urgency felt by the developing countries to accelerate their exports, and to specialize in more dynamic manufactures, rather than primary products.

In the wake of another round of oil price increases in 1979, there is even more reason to re-examine arrangements for meeting the continuing financial requirements of developing countries. Finance must be adequate, not only for the benefit of the developing countries, but also to help sustain the international economy.

Private banking institutions are understandably nervous because of their unprecedented exposure. The conventional warning signals of excessive debt have long since been triggered by the largest debtors. These are not conventional times, however. Balance-of-payments surpluses and deficits befalling individual countries—developing and industrialized alike—are both large and variable. Public institutions like the World Bank and the regional banks have played too small a part in recycling petro-dollars. The International Monetary Fund, with its new facilities, should also play a larger role, relating narrower balance-of-payments objectives to medium-run structural adjustment. Oil-exporting countries likewise have a larger direct responsibility to invest their surpluses productively.

Matching the supply of petro-dollars to continuing and prudent developing country demand is a matter of vital concern for the stability of the international economy. It is even more important for the future of the developing countries. A collapse of the world financial infrastructure because they cannot meet their debts is less likely than much slower oil-importer growth. Even if still asymmetric, North-South economic interdependence is real: Such slower growth will in turn prove costly to industrialized country exports and economic activity. The liberal trade regime will suffer in such an environment of generalizing recession. Developing countries will erect barriers and aggressively promote exports to defend their perilous balance of payments. Industrialized countries will intensify their protectionism against such attempts by the South to change the trade balance in their favor.

Inadequate international financial intermediation does not lend itself to an encouraging prognosis. De-linking, default, and destabilizing retaliation are
not unthinkable responses. North-South trade issues arise in a context including both capital and merchandise flows. Dealing with one without attention to the other will not suffice. That is why exclusive attention to specific trade policies risks an inadequate response.

**Expanded Trade Among Developing Countries**

Trade in manufactures among developing countries has been increasing rapidly in recent years, more than keeping pace with the expansion of exports to the industrialized. In 1979, 32 percent of industrial exports stayed within the South, compared to 28 percent in 1973. Much of that trade moves from the more to the less developed regions within the South. It typically consists of products in competition with those of the more industrialized countries, rather than the labor-intensive goods sent to the North. Increasingly the oil-exporting countries have been an expanding market for such goods and even services. South Korea and India have won major contracts for construction and engineering services. Overall, the share of oil-importing developing country exports of manufactures destined to the oil exporters has increased from 4.1 percent in 1970 to 8.2 percent in 1979.\(^1\)

Relatively little South-South trade has depended on the preference afforded by regional integration, although some transnational firms have taken advantage of such opportunities, particularly in Latin America. The trade under the special GATT preferential arrangements is also limited, amounting to 2 percent of exports in 1979 even though many of the principal developing country exporters participated.\(^2\) This modest showing reflects the difficulty in negotiating effective customs unions; individual countries are reluctant to pay the price of substituting new suppliers, even if they are within the South.

It is in the interest of the North to encourage more intensive trade within the South. The resulting more diversified composition of developing country exports would take some of the pressure off specialized import penetration of the industrialized countries. Widening ties weaken dependence upon the industrialized countries, and reduce the vulnerability of international openness, strengthening developing country economies.

In practical terms, this interest can be translated into more enthusiastic acceptance of discriminatory, preferential practices that favor developing country suppliers at the expense of industrial countries. The way to eventually reduced tariff barriers in developing countries may be indirect through preferences rather than most-favored-nation practices. That was the path in postwar Europe. Support for South-South exchange also means more generous contributions to enhance the credit capability of developing country exporters. Limited finance facilities are clearly a barrier in South-South trade. Finally, World Bank and regional bank support for multinational enterprises owned by, and
operating in, developing countries can be encouraged. In the last analysis, however, the principal decisions remain with the developing countries.

Trade in manufactures among developing countries can only complement exports to industrial countries, not substitute for them. That is one of the reasons developing countries have thrown their political force behind a more generalized liberal trade regime. Their own markets are too small to compensate fully for slow-growing and unreliable demand in the North. The responsibility for facilitating North-South trade remains. South-South trade as a very large percentage of exports is a second-best alternative. If necessary, that route will be chosen as developing countries seek to insulate themselves from the even higher costs of a destructive interdependence.

C. CONCLUSION

The recently concluded Ottawa Summit reaffirmed the strong commitment of the industrialized countries to a liberal trade regime and promised to resist protectionist pressures, "recognizing that this will involve structural adaptation to changes in the world economy." Such a declaration is reassuring.

But without corresponding actions along the broad lines of the policy priorities we specify, the realities of sluggish economic growth and inadequate adjustment strategies will intervene. Economic issues are now indisputably "high politics" in international relations. But North-South interdependence, and trade in manufactures specifically, compete against the seeming urgency of more immediate problems.

Such myopia may prove costly as we advance toward century's end. The shape of the economic and political ties of the developed and developing countries is still undecided. North-South trade in manufactures is an important component in that relationship. There is adequate time to design and implement appropriate policies. Practical benefits are mutual and feasible. The South has been a patient, if not decile, petitioner. It remains for the North to demonstrate, and not only reaffirm, its strong commitment.
APPENDIX

TABLE 8 IMPORT PENETRATION ESTIMATES

Data upon imports and exports of manufactures by region, net of intra-regional trade, were obtained from GATT, Networks of Trade (1978), for 1963, and from GATT, International Trade 1979/80, for 1973 and 1979.

Estimates for domestic consumption of manufactures in 1973 take as their base the UNCTAD import penetration calculations for 1972/1973 (UNCTAD, Handbook of International Trade and Development Statistics, 1979, pp. 596 ff.). Totals given for manufactures in the UNCTAD volume include consumption and imports of food, beverages and tobacco. This industry was excluded from manufactures in Table 8 since conventional totals of trade in manufactures exclude these products. The new consumption estimates were converted to a 1973 base by applying and averaging 1973 consumption estimates using 1973 trade and 1972/73 ratios. Production estimates were obtained from these consumption levels by adding back 1973 exports and subtracting 1973 imports. (For Europe, the EEC production estimate was augmented to include the EFTA countries; value added weights for 1970 for the two regional groupings were used from the United Nations Statistical Yearbook.) These production levels in dollars for 1973 were then extrapolated to 1963 and 1979 using the United Nations indexes of manufacturing production multiplied by the U.S. wholesale price index for finished goods. Consumption was obtained by subtracting exports and adding imports.


REFERENCE NOTES

CHAPTER I: INTRODUCTION

1 These estimates of current account deficits and long-term external debt exclude the Mediterranean countries sometimes calculated in non-oil developing country totals. They include private non-guaranteed loans that are absent in some estimates. See International Monetary Fund, World Economic Outlook (June 1981), Tables 14 and 27.


CHAPTER II: TRADE AS AN ENGINE OF GROWTH


4 Networks of World Trade, Table A.1.

5 OECD, The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures, Report by the Secretary-General (Paris: OECD, 1979), Table 2, p. 19.

For a recent critical review of some of this literature and further empirical results see Christian Moran, "International Trade Fluctuations, Uncertainty and Economic Growth," unpublished Ph.D. dissertation, University of California at Berkeley (1981), Chapter 2. He finds much weaker export effects when growth is measured excluding the export sector itself, and for the period 1966-75 rather than for the period 1954-65. He embeds the influence of exports within a model that includes other inputs as well as variability of export proceeds.

8 Calculated from Networks of World Trade, Tables D.1 and E.1. Volume indexes for developing country exports to industrial countries were calculated excluding fuel.

9 Based on IMF, World Economic Outlook (May 1980), Tables 11 and 19, pp. 95, 101. Southern Europe is excluded.


11 See GATT, International Trade 1979/80 (Geneva: GATT, 1980), Table 1, for world figure. The volume of developing country exports of manufactures has been estimated from the same source.

CHAPTER III: THE DIMENSIONS OF NORTH-SOUTH TRADE INTERDEPENDENCE

We can write the share of the oil-importing developing countries in world exports as the sum of their participation in exports of primary products ($S_p$) and of manufactures ($S_m$), with $S_p$ and $S_m$ weighted according to the shares in total exports of primary products ($W_p$) and of manufactures ($W_m$) — $S = S_p W_p + S_m W_m$. Approximate values for each factor in 1953 and 1978 can be derived from trade figures reported in the U.N. Monthly Bulletin of Statistics.

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1978</th>
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<tr>
<td>$S_p$</td>
<td>.44</td>
<td>.28</td>
</tr>
<tr>
<td>$S_m$</td>
<td>.076</td>
<td>.102</td>
</tr>
<tr>
<td>$W_p$</td>
<td>.43</td>
<td>.23</td>
</tr>
<tr>
<td>$W_m$</td>
<td>.57</td>
<td>.77</td>
</tr>
</tbody>
</table>

These data imply that even with constant shares for developing countries in world exports of primary products and manufactures, overall trade participation of the oil-importing South would have declined by 7.3 percentage points between 1953 and 1978, from 23.3 percent to 16.0 percent of world exports, compared to 14.3 percent in 1978 actually observed.

12 GATT, International Trade 1979/80, Table A21. Variations in country coverage and the use of current dollar shares makes the absolute numbers a little different from those in the preceding note, but the trends are the same.


14 See Donald B. Keesing and Martin Wolf, Textile Quotas against Developing Countries, Thames Essay No. 23 (London: Trade Policy Research Centre, 1980). They show in an appendix that import penetration ratios must be supplemented by information on demand and supply elasticities to estimate the impact on domestic value added; they also estimate the ratio for the United States on value and volume bases.

15 Ibid., pp. 91, 88.


17 In addition to the conceptual difference between apparent consumption and gross product, there are statistical reasons why the latter yields different results. The exchange rate changes in the 1970s made it more difficult to use a common dollar standard. That is why both Europe and Japan seem to be laggards compared to North America. Balassa, Structural Change in Trade in Manufactured Goods, uses the GDP measures exclusively to verify tendencies of trade policy. He possibly exaggerates, as a consequence, the differences. Thus he asserts that "Japan used a variety of formal and informal measures to limit the imports of manufactured goods, in particular from the developing
countries," liberalizing only in 1978 (p. 12). Yet the share of developing country imports actually rose in Japan between 1973 and 1977, i.e., before 1978.

20 Calculated from Tables A16-A20 in GATT, *International Trade 1979/80*.

21 OECD, *The Impact of the Newly Industrialising Countries*, Table 2 (excluding Yugoslavia, Spain, Portugal and Greece from developing country exports of manufactures).


23 GATT, *International Trade 1979/80*, Table A21; and *Networks of World Trade*, Table A.1.


25 OECD, *The Impact of the Newly Industrializing Countries*, p. 96.


31 *OECD Observer*, No. 100 (September 1979), p. 20.


33 These scenarios are developed more fully in the Interfutures report, pp. 77-96 and 289-334. Additional scenarios B1 and B2 are variations of scenario B1 that we use in the text.

CHAPTER IV: POLICY RESPONSES


States statement also emphasizing finance, see Felix Rohatyn, “Reconstructing America,” *The New York Review of Books* (March 5, 1981). Neither pays adequate attention to trade policy, although Rohatyn does say: “We must reduce our requirements for imports and increase as much as we can our industrial self-sufficiency and our ability to export in a decade that will see greater and greater trends to protectionism as one country after another attempts to solve the payments problems posed by oil imports” (p. 18).


42 Keesing and Wolf, p. 15, and Chapter 2 more generally for material in this and subsequent paragraphs.

43 Ibid., p. 19.

44 *GATT, International Trade 1979/80*, Table 22, pp. 80, 82-83.

45 Keesing and Wolf, p. 55.

46 Andrzej Olechowski and Gary Sampson, “Current Trade Restrictions and Imported Manufactured Goods in the EEC, U.S.A. and Japan,” mimeo (1979), Table 4.


51 It does so because the formula incorporates a multiplicative factor in the numerator and an additive one in the denominator: \( t^* = \frac{xt}{x+t} \), where \( t^* \) is the new tariff and \( t \) the old. The higher \( x \) is, the smaller the reduction and the less the harmonization. The \( x \) eventually accepted was 14.

52 See, for a complaint by Colombia in this matter, Supplement, *The New York Times* (May 31, 1981), p. 8. India has requested, and the GATT Council has agreed to set up, a panel to investigate their dispute, involving a countervailing duty on industrial fasteners.


55 *GATT, Tokyo Round*, Vol. II, pp. 31-41. The figures presented in the previous three paragraphs also come from these pages.

56 Cf. the discussion in Balassa, *Tokyo Round*, pp. 98-100.

CHAPTER V: POLICY PRIORITIES


59 Ibid., Table 5, pp. 306-307.

60 See the report of the International Trade Commission, *Import Trends in TSUS Items 806.30 and 807.00*, Publication No. 1029 (January 1980) for these and later factual references.
63 See *The New York Times* (March 12, 1981), announcing the formation of a new Labor-Industry Coalition for International Trade, organized by seven manufacturing firms and nine unions. Developing countries were specifically mentioned.
69 See *Business Week,* "Special Issue on The Reindustrialization of America," No. 2643 (June 30, 1980).
71 GATT, *International Trade 1979/80,* Table A21; GATT, *Networks of World Trade,* Table A.1.
72 Based on a 1979 level of trade of $421 million, as reported in *GATT Activities in 1980,* p. 26.
The Industrialized Democratic Regions in a Changing International System

The Trilateral Commission, launched in July 1973, is a non-governmental, policy-oriented discussion group composed of about 300 distinguished citizens from Western Europe, North America, and Japan, drawn from a variety of backgrounds. Its purpose is to encourage mutual understanding and closer cooperation among these three regions, through analysis of major common problems and consideration of policy proposals for addressing them. Commission activities have stirred wide interest and made some important contributions.

The historical roots of the Commission can be traced primarily to serious strains early in the 1970s in relations among Japan, North America, and Western Europe. As the decade proceeded, however, it became increasingly clear that the strains and shifts in the international system are global as well as trilateral in scope. The renovation of the international system is thus a task of global as well as trilateral dimensions, and the work of the Commission, as evidenced in its meetings and reports, has moved accordingly.

In this global effort, the industrialized democratic regions remain an identifiable community and a vital core. Their focus, however, must not be on the preservation of the status quo, but on arrangements which increasingly embrace the Third and Fourth Worlds in a cooperative endeavor to secure a more equitable world order.

The renovation of the international system will be a very prolonged process. The system shaped after World War II was created through an act of will and human initiative in a relatively restricted period of time. One power had overwhelming might and influence, and others were closely associated with it. In contrast, a renovated international system will now require a process of creation—much longer and more complex—in which prolonged negotiations will have to be initiated and developed. In nurturing habits and practices of working together among the trilateral regions, the Commission should help set the context for these necessary efforts.
Recent Reports of Task Forces to The Trilateral Commission

13. Collaboration with Communist Countries in Managing Global Problems: An Examination of the Options (1977)
   Authors: Chihiro Hosoya, Henry Owen, Andrew Shonfield

   Authors: Richard N. Cooper, Karl Kaiser, Masataka Kosaka

15. An Overview of East-West Relations (1978)
   Authors: Jeremy R. Azrael, Richard Löwenthal, Tohru Nakagawa

16. Reducing Malnutrition in Developing Countries: Increasing Rice Production in South and Southeast Asia (1978)
   Authors: Toshio Shishido, D. Gale Johnson, Umberto Colombo

   Authors: John C. Sawhill, Keichi Oshima, Hanns W. Maull

18. Collective Bargaining and Employee Participation in Western Europe, North America, and Japan (1979)
   Authors: Benjamin C. Roberts, George C. Lodge, Hideaki Okamoto

   Authors: John Pinder, William Diebold, Takashi Hosomi

21. Trade in Manufactured Products with Developing Countries: Reinforcing North-South Partnership (1981)
   Authors: Albert Fishlow, Jean Carrière, Sueo Sekiguchi

   Authors: Garrett Fitzgerald, Arrigo Levi, Hideo Kitahara, Joseph Sisco