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Briefing Paper

September 1977

THE TOKYO ROUND AND THE DEVELOPING COUNTRIES

Introduction

The seventh, or 'Tokyo', Round of GATT (General Agreement on Tariffs And Trade) negotiations over the institutional arrangements governing world trade has been in intermittent session since September 1973. Multilateral trade negotiations began in Tokyo on that date, to delineate the issues which would be the subject of the later substantive negotiations. Ninety-seven countries agreed to participate.

In February 1975 the discussions proper began in Geneva. The previous 'Kennedy' Round of negotiations took place over 1964–1967; but since then so many changes had overcome trade and domestic matters that further discussions had become imperative. Such optimism as prevailed at the outset of the seventh round dimmed in view of the difficulties the OECD countries were beginning to have in domestic economic policy management. The conclusions of the IMF that 'the question of industrial tariff reductions as such is unlikely to present a major hurdle . . . there seems to be broad unanimity of the views regarding the desirability of further tariff reductions . . .'¹ now seem very dated.

This paper will outline the changes which have overtaken the world economy since these words were written and their implications for the Tokyo Round. The four important negotiating issues – the safeguards clause, non-tariff barriers, tariffs, and primary commodities – will then be discussed.

The Kennedy Round and developments since

The Kennedy Round aimed at 50% linear cuts in duties facing industrial items, with as few exceptions to this rule as possible, and in the event it succeeded in cutting industrial tariffs by an average of 35%. But in the gradual change of heart that overcame the conference, from sweeping reductions in tariffs to item-by-item bargaining, a number of sensitive trade issues were less favourably dealt with.

Many tropical products, other agricultural products, iron and steel, and textiles and clothing did not enjoy the 35% tariff cuts. Details are given later; here the point to be made is that items of particular interest to less developed countries were treated less favourably than goods traded

between developed countries. Tariff cuts on semi-manufactures were again not sufficient greatly to help those less developed countries (ldcs) with an interest in manufacturing. And the deepest cuts were in chemicals, machinery, and transport equipment, which are not, as yet, major interests of many ldcs. The ldcs' failure to offer any reciprocal concessions was seen as the greatest barrier to further moves by developed countries (dcs) to open up their own markets.

Escalating tariffs also were not treated satisfactorily from the point of view of the ldcs. Briefly, this means that exports of processed raw materials face higher tariffs than when they are exported in unprocessed form. The consequences of this are to give high 'effective' protection to processing firms in the importing country and to discourage developing countries from establishing their own processing industries.

Eventual elimination of tariffs on industrial goods, and improvements in conditions of access for ldcs' goods, seemed feasible in the years after the Kennedy Round. The volume of world trade increased substantially, by 6% in 1970–1971, and 10% and 14% in the two subsequent years. But for a number of reasons, well known by now, this rapid growth of world trade faltered after 1974, as did the rapid domestic growth which accompanied it. The increase in the price of oil in 1973 and the deflation that both OECD countries and non-OPEC ldcs experienced thereafter increased unemployment to levels not attained since the 1930s. Averages are misleading, since countries calculate rates differently, but by Summer 1977 the OECD average unemployment rate was 5%. In the UK these external shocks exacerbated a longer-run rise in unemployment after 1969 and the fitful balance-of-payments problems experienced in most years after 1962.

One response among OECD countries' governments was to yield to the increasing pressure from protectionist lobbies appearing at that time. Unilaterally-imposed quotas, outside the jurisdiction of GATT, burgeoned and became increasingly disruptive to ldcs' attempts to increase their exports.

Article XIX: the 'safeguard' clause

Although GATT has nine different safeguards clauses, Article XIX is the most important. In the event of a

¹ IMF Survey, 27 August, 1973.

* The institute is limited by guarantee.

country declaring that an emergency, occasioned by rapid and damaging import increases, is affecting one of its industries, a unilateral import restriction on all suppliers can be imposed. Compensation must be offered to the offending exporters. (Although all potential exporters must be compensated, it is worth noting that safeguard action will often be precipitated by the actions of only one exporter.) As a result of GATT requiring some form of compensation to be paid to the countries facing import restrictions, there has been increasing use of 'voluntary export restraints' (VERs), which lie outside the jurisdiction of GATT. These arrangements are imposed by aggrieved governments with the threat (implicit or otherwise) that non-compliance with the VER may entail more severe curtailment of imports at a later date.

Article XIX as it stands makes no provision for multi-lateral surveillance of emergency measures, so a developed country can protect an industry, even without recourse to VERs, virtually at will. This is particularly detrimental to ldc exporters, who have been involved in over half the cases in which developed countries have used Article XIX to date. Not only is the ldc obliged to cut back production (assuming it cannot compensate by finding other export markets), but the welfare of consumers within the developed country involved is also at risk, since they face arbitrary increases in price or restrictions on choice. Recent VERs taken outside the GATT have included South Korea agreeing to reduce its non-rubber shoe exports by 12.4% to the USA over 1977-1981 and similar arrangements with regard to exports of Japanese electronics goods and Taiwanese canned mushrooms to the USA. (Paradoxically, such use of VERs against Taiwan may assist South Korean exports of similar goods, although this benefit may be only short-lived.) Similarly, an import limit of 44 million Indian shirts and blouses was introduced by the EEC in 1977; and one of 400,000 on jackets exported from Macao to the UK. The last instance is an attempt to prevent Hong Kong exporters evading their quotas by rerouting items through another country. Over the above measures the GATT secretariat has voiced 'grave concern'; there is little, however, that it can do given the climate of opinion among the developed-country members.

A number of revisions of Article XIX have been suggested. First, the provision of some time-frame for the progressive reduction or abolition of the safeguard each time the clause is used is desirable. Almost half the pre-1972 cases lasted over five years; only 14 out of the 61 less than one year. The original 1947 GATT included a clause to prevent seasonal (mainly agricultural) produce from being ruined by earlier harvests' interference, but only 17 cases have so far involved agricultural produce; and of these only 3 lasted for under a year. An agreed time-frame would assist ldc exporters, who require less capricious interference with their exports, and also developed countries using protective measures, who would have a greater incentive to improve or restructure their domestic industry. There would, furthermore, be hope of discouraging some developed countries from using VERs and inducing them to stay within the rules of GATT and positively restructure their industry.

Other cases could be dealt with within an alternative scheme of reform, whereby the principle enshrined in the most

favoured nation (MFN) system would be relaxed for those invoking Article XIX. This proposal recognises the need for avoiding both the Scylla of making the clause so tough that it is short-circuited in favour of VERs and the Charybdis of making it so lenient that it underwrites too many trade interruptions. A spectrum of ferocity in the revised clause would allow a certain amount of unilateral relaxation of the MFN principle for a specified time.

Yet another reform would oblige an intending user of Article XIX to buy the right to use it, with further compensation being made when it was actually put into effect. It is, however, possible that the very stringency of such a scheme would drive countries to use VERs instead.

One change in the formulation of Article XIX which would undoubtedly assist certain exporters is a uniform system of emergency imposition. In two-thirds of the pre-1972 cases, action by importing governments took the form of high tariffs, the rest involved quotas. But different types of goods are affected differently, perishable goods being worst affected by low ceiling quotas, with tariff increases biting hardest on goods the demand for which is heavily influenced by price. To sum up the dilemma: too onerous a safeguards clause is an incentive to act outside it; too lenient a clause allows excessive distortions at the whim of importing governments.

Non-tariff barriers (NTBs)

The growth of NTBs since the Kennedy Round has been extensive. But precise estimates of their extent and effect are hard to make, since imports which have been prevented cannot readily be quantified and by their very nature many NTBs are difficult to identify. GATT has classified 800 varieties of NTB, but for simplicity they can be dealt with here under four headings. While not mutually exclusive, these headings emphasise the different intentions of NTBs. The first set is composed of *quotas*, which are quantitative limits set on imports precisely as a barrier to imports. (These are dealt with above also.) A second set of NTBs, which deliberately obstruct trade, are *administrative frictions*, such as statistical requirements and customs procedures, which delay the entry of goods and entail lengthier credit outlays and more astute anticipation on the part of the exporting firms. A third set is represented by *health and sanitary measures* with inordinate detail, which are a common NTB facing exporters of agricultural produce. Some of them are genuine, however. Ensuring that children's toys, for instance, comply with rigorous safety standards may obstruct Asian toy imports, although this is not the expressed aim of the standards. One of the problems about health and safety measures, however, is that they may lead to pressure from developed-country manufacturers for them to be set unnecessarily high. Some, at least, seem designed more with a view of excluding competing imports than with genuine health or safety objectives. The final type is *government procurement practices* whereby preference is given to domestic producers. The appropriate negotiating groups are trying to devise international codes of conduct for NTBs other than product-related barriers. For the latter (which are mainly quotas) item-by-item bargaining is likely. The most important system of quotas, the Multi-fibre Arrangement*, is at present being renegotiated in Brussels.

* Full title: Arrangement Regarding International Trade in Textiles. See ODI Briefing Paper, 'The Textile Trade, Developing Countries and the Multi-fibre Agreement' (November 1976).

Resort to NTBs, particularly quantity restrictions, may be a result of the breakdown of Article XIX under conditions of high domestic unemployment in developed countries. The most intense use of NTBs is usually to protect industries which face particularly intractable adjustment, in terms of the unavailability of alternative employment, and where the government is concerned to encourage the revival of a depressed region.

Consequently, the progress which one can expect to see on NTB negotiations will necessarily reflect the re-ordering of Article XIX. A prerequisite for the elimination, or at least, the formalisation, of those NTBs introduced deliberately to restrict ldc's access to developed-country markets is therefore a satisfactory resolution of the confusion over safeguards clauses.

Tariffs

The average level of tariffs as measured by *ad valorem* duties is not a satisfactory measure of protection. First, the average level obscures wide divergences, and in particular the frequently higher-than-average tariffs pertaining to the exports of ldc's. Second, the effective protection afforded by the tariff on a particular product cannot be judged by looking at the rate of duty in isolation. Two further important factors are: the rates of duty on imported raw materials and other inputs (see also the earlier discussion of tariff escalation); and the value added by the protected industry in the importing country. The lower the figures for either of these, the higher the degree of effective protection. For instance, a 10% tariff on a product where the domestic producers do no more than put the 'finishing touches' to goods which they import duty free may represent an effective protection for those producers amounting to many times the nominal 10% tariff rate. Under the EEC's Generalised System of Preferences (GSP), for instance, cocoa beans enter free of duty but must cross a 12% tariff if made into cocoa butter and a 16% tariff if processed into cocoa powder.

So far ldc's have shied away from reciprocating in tariff reductions. The tariffs facing many developed countries' exports to ldc's are extremely high. There may be some good arguments for such a policy — the infant-industry stage of import substitution, the need to conserve foreign exchange and to lower demand for imports, or the desire to restrain conspicuous consumption — but so long as it persists, ldc's will have to rely on non-reciprocal tariff agreements, primarily the GSP. Some of the larger manufacturers among the ldc's — notably India, Mexico, Brazil, the ASEAN countries — are however beginning to see reciprocity in a different light, believing that some judiciously placed concessions might expedite their bargaining.

Introduced by the EEC in 1971, and later by many other blocs or countries, each GSP has complex rules which limit, sometimes severely, the entry of products from ldc's. Thorough analysis of the GSP's various impacts upon ldc's trade is not yet possible since the schemes are too recent. Briefly, however, it should be noted that as now constituted the schemes are discretionary, allow manufactures to enter duty free with some exceptions, and grant agricultural products a margin of preference — not duty-free

entry. Exceptions are dealt with (in the case of the EEC's scheme) under 'sensitive' and 'semi-sensitive' lists, the operation of which limits the volume of certain manufactures admitted duty free.

Despite these restrictions on the applicability of GSPs, they do offer some margin of preference over third-party competitors. But this margin exists only in so far as the global (MFN) tariff exceeds that obtaining under the GSP, so once again the ldc's are in an awkward bargaining position. Is a cut in the general MFN level of tariffs preferable to a margin of preference over a higher tariff? The answer will of course vary between ldc's and depend to a large extent upon the conditions of supply and demand for their major exports.

For their part, the dcs too are split over the desirability of MFN or GSP changes. The EEC prefers to concentrate on GSP changes, partly to avoid MFN tariff cuts which would favour other dcs' exports to the Community. The USA, on the other hand, is obliged by the Trade Act to negotiate primarily over the MFN system.

Primary commodities

In the Tokyo Round, primary commodities will be dealt with only in so far as they face tariff and non-tariff barriers in trade. The issues of stabilisation schemes will be dealt with elsewhere, at UNCTAD fora. The intention of the US and EEC delegations to finish negotiations by the Spring of 1978 implies a fairly robust approach to the myriad complexities of trade in commodities.

The commodities issues affected in the Tokyo Round are: tariffs and non-tariff barriers to primary commodities' entry to dcs and, in the case of EEC imports, the operations of the Common Agricultural Policy. At the outset it is worth noting that many ldc's are still very heavily concentrated in the exporting of primary commodities: in 1970, 56 ldc's gained over half their export earnings from agricultural goods, and 14 over half their non-oil export earnings from three or fewer minerals. The problems associated with such heavy reliance upon a few primary commodities, particularly that of export earnings instability, are well known.

Minerals and metals, if unprocessed, encounter few import restrictions. Under the EEC's Lomé Convention, most mineral and metal fabricated products also enjoy duty-free entry. Tropical agricultural goods (notably tea, coffee, and cocoa) similarly encounter few import barriers, although revenue taxes on their consumption in some developed countries constitute a constraint on their sales. Escalating tariffs do, however, appear — witness the prolonged enmity between Brazil and the USA over Brazil's desire to export instant rather than merely unprocessed coffee.

Those agricultural products which directly compete with developed countries' domestic output face harsher entry. This group, amounting to some 30% of ldc's non-fuel primary product exports, faces duties and quota restrictions unknown to minerals and tropical products. Emergency quotas, dealt with more fully above, play an important part in restricting the entry of temperate

products. In 1974, for instance, the EEC banned all beef imports when its own beef producers generated surpluses which could not be absorbed, at ruling price levels, by EEC consumers (Botswana was exempted from this ban.) The ubiquitous NTBs of health and safety apply to these commodities too. By 1977 the EEC will have one common health standard — although this will still differ from those used in Japan and the USA. As mentioned above, however, NTBs have been agreed upon as a negotiable issue in the Tokyo Round, and some moves towards standardisation may therefore be feasible.

Conclusions

Progress on reducing tariffs may have been possible in the past only because those agreeing knew that, if necessary, they could always rely on NTBs to protect certain industries. Now that the Tokyo Round has explicitly included NTBs as a negotiable issue, the rate of tariff reduction may slow down. An exception to this may be the struc-

ture of tariffs facing goods typically traded between dcs, which may be more readily reduced. How far ldc's with an interest in substantially increasing their exports of manufactured goods will reciprocate in tariff and NTB changes by dcs is as yet unclear; but the more concessions the ldc's make, the more progress can be expected. From a position of insisting upon unilateral concessions by dcs, the more industrially sophisticated ldc's may be increasingly prepared to bargain away some of their trade protection. Attempts to make Article XIX more rigorous are likely to be counter-productive: developed countries will not countenance faster rises in imports without provision for some type of escape. This insistence on being able to protect a 'threatened' sector will continue while the current unemployment rates in dcs persist. A realistic hope may be that some at least of the present escape clauses can be formalised in the Tokyo Round so that when they are imposed, their impact is more predictable, less arbitrary, and thus less damaging, to the affected exporters.

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