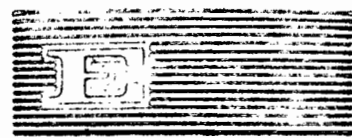


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INDUSTRIAL COUNTRIES

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## 1. Introduction

The world recession in the period 1973-1975 reinforced the protectionist pressures of the developed countries, and aggravated the state of affairs which has permanently been affecting the developing countries for a long time. The increase in unemployment and the drop in demand in several sectors brought to the surface wide-ranging structural problems which affected the economy of the industrialized countries. The constant decline of productivity in certain areas, and the tendency to increase the general level of real wages and reduce the differences in wages between the various sectors of production, which adversely affected the international competitiveness of their goods, should be mentioned as examples.

In addition to these factors is the greater utilization by the developing countries of their comparative advantages in certain activities; the increase in world production capacity in several sectors and the short-term problems of the international monetary and financial system.

It should, however, be noted, that all these facts originated in the industrialized countries themselves, without any contribution from the developing countries to their origins or propagation. Quite the contrary, it is the developing countries which are suffering the consequences of the failure to adopt timely measures in the industrialized countries to deal with the problems it is desired to solve by intensifying protectionism.

The new protectionist policy of the industrial countries is neither an isolated nor a transitory phenomenon. In an already-existing structure, instruments and modes of protection in addition to the trade policies of the developed countries become included on a permanent basis. There is an increasingly generalized use of non-tariff measures (quantitative restrictions, compensatory duties, subsidies to domestic production, etc.) which means that of customs tariffs, the relative importance of customs tariffs as an instrument for regulating the trade of industrialized countries is decreasing. The modes of protection such as "voluntary" agreements to restrict exports and market organization agreements which involve the forced consent of the developing countries (which give their

consent so as not to find themselves exposed to even more stringent restrictions), thus acquire a form of legitimacy which favours their permanent status.

These measures have been applied fairly generally, but have had particularly adverse consequences on the exports of the developing countries.

The protectionist policy was traditionally applied in generalized form to certain export commodities of the developing countries, including - according to the import market - products such as sugar, coffee, meat, dairy products, cereals and some metals. It has recently been applied to such products as steel, footwear, textiles, leather articles, natural flowers, soya, copper, zinc, household electrical appliances and light electronic goods. Although basic commodities continue to represent the greater part of the exports from Latin American countries, it is the group of products listed - among others - that has given most impetus to the Latin American export sector, and has increased its capacity to import, which is an inescapable requirement for greater economic growth and the mitigation of critical poverty.

Another aspect should be noted. Many of those goods should be produced in developing countries through a reconversion of industry that would lead to changes in the production structure of the North and the South so that they could both achieve more vigorous growth. The principles of international trade formulated by the North, which constitute the institutional framework in which this trade develops, assigned a central role to the comparative advantages whose utilization was so insistently recommended to the South. This position contrasts persistently with the present situation in which the industrial countries are departing completely from these principles at a time when there is a concrete possibility of making more efficient use of the comparative advantages of developing countries and achieving a fairer international division of labour.

In the light of the above facts, the secretariat of CEPAL decided to undertake a technical analysis of the protectionist policy of the industrialized

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countries and its effects on Latin American exports, as a guide to the action which the countries of the region should adopt in dealing with the problem.<sup>1/</sup>

The conclusions of this analysis present a highly disturbing picture. The main consequences of the new protectionist policy have already had concrete effects on exports of Latin American countries. They will, however, be much more serious in the future unless the full gravity of the problem is realized in time and measures are adopted to modify the present trend.

## 2. A new policy?

After the Second World War the Western countries laid the structure of a complex mechanism of rules and practices - especially within the context of GATT - which constitute the present system of international trade. In the last few decades, except in the period 1973-1974, world trade grew vigorously at much higher rates than world production.

The developing countries have endeavoured to incorporate in that system, throughout a process of tough and difficult negotiations, a set of principles recognizing their particular position in the world community, and to establish measures aimed at changing the terms of the present participation in the international economic system. These efforts are designed to bring fully into operation some principles - such as that of non-reciprocity and preferential and differential treatment - which have thus far had somewhat restricted practical application.

The protectionist measures referred to above are no longer practices used occasionally to solve conjunctural, extremely sensitive and transitory problems, as established in the principles of GATT. They are, in fact, constituting a systematic policy which means a return to international trade patterns which were believed to be superseded.

In these circumstances, the discussions on the establishment of a new international economic order may appear somewhat meaningless.

It is common knowledge that the relative share in world trade of the developing countries - excluding the oil exporters - has declined. In the few cases in which they succeeded in maintaining the dynamism of their

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<sup>1/</sup> See Pedro Mendive, El nuevo proteccionismo comercial y el desarrollo de América Latina (E/CEPAL/L.182).

trade, diversifying their exports or securing incipient access to the market for manufactures, they did so through their own efforts, the effect of the advantages granted by industrialized countries through the Generalized System of Preferences being very small. Now, the new protectionist policy may condemn those efforts to failure and at the same time deprive any restructuring of the economic system in force from the possibility of practical realization by systematically affecting the share of the developing countries in world trade, particularly in manufactures.

3. Permanence of the protectionist structure and consolidation of its new forms

The developed countries as a whole maintain a large-scale system of tariff concessions for approximately 40% of their imports, so that the weighted average of the tariff is fairly low. In fact the rate has gradually dropped in the course of time through wide-ranging multilateral rounds of negotiation. Thus in eight developed countries the average rate for dutiable products was over 50% in 1950, 26% in 1956, 18% after the Dillon negotiations (1961) and about 9% as a result of the Kennedy negotiations (1967).

Nevertheless, two basic observations must be made here. First, that parallel with this reduction in the average rate, a whole system of non-tariff measures is gradually being built up which, in addition to nullifying it, has established a type of protectionism which is incorporated in the permanent structure characterizing the socio-economic trade policies of the major industrial countries. The second is that those tariff reductions have not altered a fundamental feature of the structure of the tariff system of those countries which is particularly important to the developing countries: a tax scale by level of processing of the goods, with higher tariffs for finished goods than for imported inputs.

This means that such finished goods, or their factors of production, are accorded a real rate of protection which is twice or even up to three times higher than the nominal tariff rate. Thus in 1976 the nominal rate which in the United States is 42.5% for textiles and textile manufactures, becomes a real rate of around 100% for some specific products. In Japan, for processed foodstuffs and textiles and textile manufactures real rates

of 68 and 45% have been calculated respectively, while for processed chocolates the real rate is about 100%. The same may be said for the European Economic Community, in which the use of a complex system of non-tariff measures in connexion with agricultural raw materials and processed foodstuffs, while making it impossible to calculate the real rate of protection for this group of products, is not for that reason less effective in reducing purchases of these goods from Latin American countries.<sup>2/</sup>

These high real rates of protection, which mainly affect products in which the Latin American countries are actually or potentially competitive, hamper the development of their industries and access to the world market.

In other cases in which the tariff is not an obstacle, at least insurmountable, non-tariff measures play an almost exclusive role. This is the case of a wide range of raw materials and inputs, so that when these goods enter the world market at low prices - plus tariff - they are limited quantitatively so that they should supplement but not compete with domestic production. This proven principle repeats itself in all the markets that have been studied. Thus the tariff scale by level of processing becomes an established fact and acts as a tax on imported products and as a subsidy for the establishment of their production activities in the protecting country.

An exact quantitative idea of the use of those non-tariff measures is obtained from the following examples. For 1,051 tariff items with a coverage of Latin American exports of over 8,000 million dollars annually - for products with the maximum disaggregation - for the United States, 400 applications of those measures were identified, mainly of a quantitative and sanitary nature. In the EEC, out of 479 items covering some 8,000 million dollars annually, some 300 applications were identified of non-tariff measures varying to a degree not recorded in other markets. In Japan, out of the 431 items investigated which represent 3,600 million dollars annually, some 100 applications of such measures were identified. These 800 applications of non-tariff measures, whose proliferation is a basic feature of the new protectionism, do not include domestic taxes. Nor do

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<sup>2/</sup> See Pedro Mendive, op.cit.

they include those measures which are voluntarily adopted by the exporting country to avoid the application of bilateral restrictive measures,<sup>3/</sup> which have taken on great practical importance in recent years.

The distortions which this whole protectionist structure introduces in the trade flows affect the domestic economies of the developing countries, in the sense of retarding their growth and imposing a particular pattern on the structure of their production and employment and on the channelling and volume of their investment.

4. Types of restrictions applied to some products of interest to Latin American countries

An illustration of all the foregoing may be given in terms of what happens in cases of products of importance to Latin America such as steel, textiles, footwear, leather products, sugar, canned fish, soya, natural flowers, zinc and copper, according to authorized sources in some countries of the region.

The following basic restrictive elements are used in the United States and the European Economic Community: voluntary and quantitative restrictions on steel, footwear, soya, sugar (United States), canned fish, flowers, zinc and copper (in both cases depending on a decision); the decision to apply compensatory duties unless the exports are voluntarily limited, or the threat to establish global or bilateral quotas for products such as footwear, leather articles and flowers; the obligation to conclude restrictive bilateral agreements on a quota basis, like the multi-fibre textile agreement; variable duties, specific domestic taxes and quotas for meat, etc.

It has been confirmed that Argentina, Brazil, Colombia, Ecuador and Peru are among the Latin American countries affected by these measures.

In a recent study, the UNCTAD secretariat examines the most important restrictions recently applied at the international level. These include: the automatic application of restrictive measures by using trigger prices; the negotiation of voluntary restrictions on exports, with or without direct government regulation; regular marketing agreements, and the

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<sup>3/</sup> See Pedro Mendive, op.cit.



extension of anti-dumping procedures, which create a climate of uncertainty. All this goes to make up the new policy known as "organized free trade".<sup>4/</sup>

5. Protectionism has adverse effects on  
development policies

The initiatives adopted by the industrialized countries to defend their balance of payments and their employment, which are expressed in quantitative measures and lead to market organization agreement, channel, these problems to the developing countries. In the majority of the sectors affected by those measures, production and exports are predominantly in the hands of national enterprises and do not belong to the circuit of any transnational corporation. The importance of this fact cannot go unnoticed, since as has been said on various occasions, the parent companies of these corporations do not always define world distribution strategies for production and trade in a form which is in keeping with the interest of the developing countries.

Some developing countries, particularly in Latin America, are at a phase of development characterized by economies which endeavour to project themselves outwards, and have passed the stage of import substitution which takes place exclusively in the context of each national market, sheltered by a very high protectionist barrier. This policy contributes towards a more efficient specialization in production in the present economic system.

In order to achieve this objective, some developing countries introduced substantive reforms into their tariff, monetary and exchange policies, and built up an export promotion system. They took inspiration from the system used by the industrialized countries in the past, which included exchange and tariff measures and fiscal and financial incentives aimed at fostering exports during the initial search for external markets to offset the higher costs of this period.

This promotion system has been one of the keys to the successful efforts of some Latin American countries to diversify their exports, both of manufactures and of some non-traditional primary products.

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<sup>4/</sup> See, "Aumento de proteccionismo y mantenimiento del status quo en lo relativo a las barreras comerciales contra las importaciones procedentes de los países en desarrollo", TD/B/C.2/194, 21 March 1978.

A detailed examination of the promotion systems of four Latin American countries (Argentina, Brazil, Colombia and Mexico) shows that they have had and are still having decisive effects on the growth and diversification of these countries' exports.<sup>5/</sup>

Some of the new measures of the industrialized countries, however, neutralize the effects of the Latin American incentives by imposing or threatening to apply compensatory duties.

The consequences of applying this policy are much greater than appears at first sight from a study of the specific cases in which it was used.

They have discouraged enterprises which included export plans in their programmes, using the export promotion machinery, with the result that the use of these protectionist measures has not only brought already existing trade flows to a standstill, or suppressed new flows, but has also dissuaded potential exporters from engaging in external trade activities and investment to introduce or expand exports.

#### 6. Access to the sources of raw materials

In the majority of countries the promotion machinery of the developing countries establishes different incentives, the aim of which is to stimulate exports of goods with the highest possible value added while in some countries it has succeeded in discouraging or prohibiting exports of raw materials without processing. This policy of scaled incentives tends to be neutralized by its opposite - a symmetrical policy of scaled duties applied by the industrial countries. As has been said, these countries place low or zero tariffs on imports of raw materials, and high tariffs on imports of goods with a higher degree of processing.

Following the Conference on International Economic Co-operation, the industrialized countries have insisted on the inclusion of a new principle in the international economic system - that of free access to the sources of raw materials - which could mean the application of measures which restrict or neutralize the promotion system of the developing countries, or sovereign control over their natural resources.

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<sup>5/</sup> "Políticas de promoción de exportaciones", E/CEPAL/1046, October 1977.

## 7. Bilateral negotiation

For many years serious efforts were made to give economic relations a multilateral slant, and arrive at the pre-eminence of certain collective principles which would ensure the rule of justice and equity in these relations.

The recent proliferation of "voluntary" agreements to limit exports, which various developing countries have been obliged to sign, show a very dangerous regressive trend. These are negotiations which do not take their inspiration from the concepts laboriously elaborated in the international forums, but which arise out of confrontations without pre-established rules, in which each party depends on its own bargaining power. As is natural, the developing countries, isolated and with little capacity for negotiation, find themselves at a clear disadvantages vis-à-vis the industrialized countries.

On the other hand, the new market organization agreements, of which the multifibre textile agreement is the best example, may become instruments which will maintain the present situation and abandon the developing countries to the mercy of the international situation in all matters involving the expansion of the sector placed under the terms of these "agreements". If they were generalized and covered many of the areas of production, their use might merit a more careful study, but in fact to date they only affect sectors in which the developing countries have shown that they possess comparative advantages. In other words, this is a mechanism used mainly to regulate the trade of the developing countries, and has adverse effects on their economies.

## 8. Restrictive measures which lie outside the negotiation agreements

In addition to the protectionist measures studied, there are others applied in different markets which in terms of their conception, nature and opportunity of application lie outside the letter - although not the spirit - of the agreements adopted in the negotiating forums, the principal example of which is certainly the General Agreement on Tariffs and Trade (GATT).

/These measures

These measures - seasonal restrictions, variable duties, variable components, movable elements, various types of licenses, specific internal taxes and even discriminatory taxes, etc. - generally speaking, constitute a category of restrictions which to date has not been the object of acceptable negotiation, although it may actually form a specific sectoral policy.

This is the case, for example, of the agricultural policy of the European Economic Community. Measures of this kind make it possible to keep tariffs at a low level or even reduce them to zero, without losing the protection of the domestic market vis-à-vis imports with lower CIF prices. A zero tariff exists, for example, for some basic Latin American export commodities, such as wheat, maize and sugar; but the application of some of these measures raises the price of the most efficient external producer above that of the least efficient EEC producer, although in such cases the differences in prices - without duties - in favour of the exporting country may be of the order of 100%. Measures of this type, which the EEC declared emphatically were not for negotiation in the present Tokyo Round taking place in GATT, tend to be perpetuated in a permanent protectionist structure of which the economic policy of the developed countries is part.

#### 9. Conclusion regarding the present situation

The content of the new protectionist policy is worthy of note. It limits the share of developing countries in world trade; it places under the control of the industrialized countries the possibilities of expansion of their most dynamic production sectors; it neutralizes their machinery for developing production and promoting exports; it constrains or contests the right of these countries to dispose freely of their natural resources, and lastly, leads them into bilateral bargaining in which the industrialized nations have a far greater capacity for negotiation.

A simple state of affairs may be deduced from all the above. The instruments of economic and trade policy are essentially policy instruments and as such serve the interests of those with the power to impose them. There are no immutable principles of international trade, and far less when they protect the interests of the developing countries. The existence of

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the right is not sufficient; constant activity must be maintained in order to defend it and create a clear awareness that in the last instance it can be used to benefit the entire international community. All of this more than ever requires solidarity in action by the Latin American and the other developing countries.

10. Foreseeable effects on the future evolution of protectionism  
and trade flows of the present multilateral  
trade negotiations

When the Ministerial Declaration of Tokyo which gave rise to the present negotiations in GATT was adopted in September 1973, the establishment of a new framework for international trade was sought which would successfully break down the existing protectionist barriers - particularly of a non-tariff nature - and improve the institutional framework for submitting this trade to a more efficient type of discipline. With the ensuing economic stagnation and monetary chaos, this objective of liberalizing trade came into conflict with the policies adopted in the developed countries, which are not to achieve this liberalization but to conserve levels of employment and economic activity, and are in the main clearly protectionist in inspiration. In other words, it is now sought to freeze the major trade flows and ignore the interests of the developing countries.

A rapid review in this context of the offers of tariff reductions made by three major markets (United States, Japan and the EEC), make it possible to conclude that although in principle they constitute agreements to reduce tariffs, this reduction would neither be as broad nor as far-reaching as that achieved in the Kennedy round of negotiations. This is because the reductions in agricultural products - including tropical products - are of little significance, and because the linear formula for reducing duties allows of deviations, alterations and exceptions in its application.

In various areas of negotiations a form is being given - although the developing countries have no substantial share in the process, and have in fact been marginated - to a whole group of proposals which are basically aimed at consolidating the present situation in matters of market distribution and policies applied by the industrialized countries. These

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negotiations are no longer governed by an endeavour to liberalize trade, but simply by an attempt to avoid a further deterioration of the rules of the game and to permit each developed country to maintain its present share in trade by sectors.

This does not mean that nothing new will emerge from the negotiations in terms of the rules governing international trade. Through the draft codes of conduct on compensatory duties and subsidies, safeguards, estimates, state purchases and technical standards and rules, the developed countries which drafted them will certainly arrive at an agreement which will ensure a better application of the rules adopted, and will only modify the present rules in so far as they will make them clearer.

With regard to modifications to GATT - the juridical framework which has increasingly governed international trade since 1948 - hopes of giving clarity and a standard value to the aspect of relative reciprocity and of introducing the special and differentiated treatment accepted in the Tokyo Declaration, remain, as far as can be seen, at a merely declaratory level.

Lastly, what finally emerges from the negotiations on all these institutional aspects will or could constitute a potential threat to the trade flows of many developing countries, and frustrate a new and laborious effort to obtain the international recognition at standard value of their legitimate trade and economic development interests.

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