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IS THERE EFFECTIVELY A LEVEL PLAYING FIELD FOR DEVELOPING COUNTRY EXPORTS?

by

Erich Supper

Trade Analysis Branch,
Division for International Trade in Goods and Services, and Commodities (DITC)
United Nations Conference on Trade and Development (UNCTAD)

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Chief
Trade Analysis Branch
Division on International Trade in Goods and Services, and Commodities
United Nations Conference on Trade and Development
Palais des Nations
CH – 1211 Geneva

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ABSTRACT

This paper investigates the extent to which recent progress in reducing impediments and distortions to trade has levelled the playing field for developing country exports. It finds that the competitive situation remains severely distorted by high protection rates in developed countries to domestic producers in agriculture, consumer goods and other industries. Other instruments to reduce competition from developing country exports such as budget subsidies and enforcement of anti-competitive practices were also identified. The key sector of concern for developing countries is the agriculture industry which accounts for 60 per cent of budget and price transfers in OECD countries. The paper also emphasizes that even if developing countries enjoyed favourable market access for their products, the unequal competitive strength of their firms should not be overlooked during multilateral trade negotiations.

EXECUTIVE SUMMARY

The post-Uruguay Round Multilateral Trading System (MTS) has brought about major progress towards a rules-based and more reliable framework for international trade. However, an analysis of the extent to which developing countries effectively enjoy a level playing field for their exports to major markets reveals the persistence of major imperfections. The competitive situation remains severely distorted by high protection granted to domestic producers in agriculture, consumer goods and other industries, by major budget subsidies in agriculture, various industries and services, by trends in corporate policies and anti-competitive firm practices.

Developed countries continue to support agricultural and industrial producers on a large scale: in 1997 developed countries transferred an estimated US$ 470 billion to agricultural and industrial producers in the form of budget transfers or higher consumer prices. Developed countries could save 2.2 per cent of their GDP on subsidies every year. This is equivalent to almost 10 per cent of developing countries' GDP, more than half of developed countries' imports from developing countries, or 10 times their concessional official development assistance (ODA) flows.

Protection, and the resulting transfers from consumers to producers through higher prices, remains the major form of support, even after full implementation of the Uruguay Round commitments, as they account for almost 60 per cent of the total. Consumer transfers for industrial products (in high protection sectors) still exceed somewhat transfers in the agricultural sector. There remains a large degree of asymmetry in market access in both sectors: developing countries continue to face high trade barriers for their most important export products on their major export markets, whereas tariffs are now low or nil for many products which most of those countries can hardly aspire to export in the foreseeable future. While developing countries are increasingly obliged to assume reciprocal obligations in multilateral and regional arrangements, the opportunities provided are often only equal in theory, as their firms do not have equal strength to translate such facilities into actual production or exports. Opportunities require complementary investment, financing and technology to materialize. But thus far, international action and obligatory multilateral commitments to support developing countries requiring such action remain scarce.

Establishing equal trading opportunities with regard to *import protection* would imply action primarily in the following problem areas: (i) peak tariffs on industrial and agricultural products; (ii) evasive implementation of the Multi-Fibre Arrangement (MFA) liberalization, which risks causing problems if stringent quota protection is suddenly removed in 2005; (iii) animal and plant health in developing countries and import restrictions on such products in major markets; (iv) increasing use of selective measures protecting producers from foreign competition[1]: as tariffs tend to decrease[2], protection tends

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[1] See The Post-Uruguay Round tariff environment for developing country exports: tariff peaks and tariff escalation Joint UNCTAD/WTO study. In: TD/B/COM.1/14/Rev.1, January 2000 (available on the Internet).

[2] See Market access: developments since the Uruguay Round, implications, opportunities and challenges, in particular for the developing countries and the least developed among them, in the context of globalization and liberalization. Report prepared by UNCTAD and WTO for the Economic and Social Council. In: E/1998/55, May 1998.

to shift from tariffs to anti-dumping and countervailing action, safeguards and informal market arrangements.

Budget subsidies to agricultural and industrial producers of developed countries amounted to about US$ 200 billion in 1997. This is equivalent to 4 per cent of the GDP of the developing countries. Such transfers were three times as high in the agricultural sector as in industry. The WTO Agreements tightened essentially the disciplines for those governmental subsidies which are principally applied by developing countries, for example, industrial export subsidies and project-specific investment subsidies. However, they left relatively large possibilities for continued support to producers through measures intensively applied by developed countries, such as agricultural export and producer subsidies, regional investment subsidies, public support to small and medium-sized enterprises (SMEs) and for research and development (R&D) and energy programmes. Government subsidies to export financing, in particular for agricultural products, and support through government procurement remain major distortions to international trading conditions and market access.

Agriculture remains the sector of priority concern: it accounts for 60 per cent of overall budget and price transfers. According to the OECD, total transfers to agricultural and livestock producers from consumers and budgets due to agricultural policy measures amounted to US$ 280 billion in 1997, or 1.3 per cent of the GDP of developed countries.[3] Export subsidies remain extremely important, alongside substantial support to domestic producers in the form of direct income support, price guarantees, credit support, including export credits, and food aid (see annex tables 1 and 2).

In this sector, developing countries have neither obtained equal opportunities for their exports to developed countries, nor are they on an equal footing in international trade. They even continue to face major export subsidies, to the detriment of developing their own production for domestic and foreign markets. The Uruguay Round only initiated the agricultural reform process, starting with a shift of the forms of support away from the most distortionary practices. However, the Agreements hardly diminished as yet the level of protection of developed country markets nor the amount of subsidies for developed country producers, as WTO disciplines provide major special exceptions for agriculture. For developing country exports, the most prejudicial exceptions include the possibility of imposing special agricultural safeguard measures against imports; extensive use of export subsidies (which are otherwise prohibited in WTO for industry); and virtually free leeway for producer subsidies. Barriers to access to developed countries' markets accumulate: extremely high most-favoured-nation (MFN) tariffs; limited access possibilities under tariff quotas; anti- dumping and countervailing action against exports of non-traditional products; stringent health and sanitary regulations and sweeping import prohibitions for such reasons; large scale subsidies for production and investment, as well as sizeable export subsidies and marketing support. The situation is analogous in food processing industries which ought to constitute a major gate for many developing countries to enter export oriented industrialization.

Industrial subsidies continue to feature prominently in international trade and are a cornerstone

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[3] Agricultural Policies in OECD Countries, Measurement of Support and Background Information. OECD, Paris, 1998, p. 9.

of structural policies in developed countries. According to the OECD, industrial support programmes in 1993 transferred US$ 45 billion from public budgets to the enterprise sector, equivalent to 1 per cent of manufacturing value added.[4] Consumer transfers to industry in sectors of high protection are almost three times as high. Combined transfers exceeded an estimated US$ 190 billion in 1997. The long-term effects of such sizeable subsidies should not be underestimated, as they affect competition, trade, investment and future technological capacities. Developing countries do not have the means to compete on that scale with developed countries to strengthen and rationalize their industries, attract new investments, finance and promote their exports or spur industrial research and technological development.

By contrast, *policy freedom for developing countries* is diminishing with regard to their main types of subsidies and other policy support preferably used by them to develop their industries. Thus, the new MTS rules out local content rules and export balancing requirements, while patent protection had to be significantly extended, delaying access to foreign technologies for a much longer period. There may be good economic reasons for these WTO rules, but their choice is highly selective. There is now an urgent need for re-establishing similar competitive conditions by subjecting the other forms of government support to equally stringent discipline. In parallel, it is necessary to strengthen developing countries= capacity to pursue the same policy goals by alternative instruments: for example, to strengthen domestic component production and suppliers no longer by local content rules, but rather by reinforcing enterprise capacities and supporting the building of supplier networks.

To that effect it is also necessary to turn existing support promises by developed countries contained in WTO Agreements, such as the promise to foster technology transfer, into firm commitments and action. Other WTO Agreements contain similar provisions which could help to strengthen productive, technological and trading capacities of developing countries. However, thus far they remain largely without concrete follow-up, as they lack operational programmes and finance for their implementation.

Even if developing countries enjoyed similarly favourable market access for their products as developed country firms usually enjoy for their own, even if levels of government subsidies and government support were substantially reduced, the unequal competitive strength of firms would still make a striking difference in results. Only a tiny number of developing country firms have the productive, financial and managerial capacity to participate in the globalization process on an equal footing or to aspire to become international market leaders in their core business: Only 10 companies from four developing countries rank among the top 200 largest industrial groups of the world (half of them are engaged in petroleum refinery). In the overwhelming majority, developing country firms lack the capacities to draw equal with their international

[4] Spotlight on Public Support to Industry. OECD, Paris, 1998.

competitors. Structural deficiencies in domestic supply conditions and policy constraints may render this task even more difficult.

While government protection is progressively reduced, *anti-competitive enterprise practices* remain outside any binding multilateral discipline. Their effects escape control of individual Governments of smaller countries the more firms become globalized. On the other hand, the share of intra-firm trade and production networks in international trade is increasing; they provide captive markets and internal marketing channels directing or restraining exports and imports within the corporate network. Outside, anti-competitive firm practices for restricting market access or limiting export and price competition are becoming more important as liberalization has removed many government trade barriers. Globalization of corporate strategies calls for a concomitant strengthening of cooperation between Governments to enhance the effectiveness of their national competition rules. Stronger international cooperation and the establishment of multilateral basic principles and disciplines for some major trade- restrictive practices would form possible responses to the new conditions of a “global village”.

Further multilateral trade negotiations could improve significantly the competitive position for developing country exports on world markets if they comprise the following elements:

(a) In the field of market access:

Liberalization of peak tariffs and tariff escalation for developing countries' agricultural and industrial exports, through harmonization at significantly lower levels;

Ensuring and accelerating effective implementation of the MFA liberalization by removing a sizeable proportion of quotas before 2005, by multilateralizing bilateral quotas among the countries concerned, or by unifying growth rates of quotas;

Tighter disciplines on the initiation of anti-dumping and anti-subsidy investigations and the application of remedial measures; and

Greater support to programmes for improving plant and animal health and strengthening domestic inspection capacities, combined with the removal of related import prohibitions and mutual recognition.

(b) In the field of subsidies:

A programme and calendar for terminating the agricultural reform process and the full integration of the agricultural sector into the general WTO disciplines, including the rules for safeguards and subsidies;

Rapid and general elimination of export subsidies by all countries. This should include less transparent forms, including export financing in agriculture, as well as appropriate adjustments regarding application rules for developing countries;

A radical reduction of the level of investment subsidies, in order to end multilaterally the race of national competition for foreign direct investment (FDI) locations. Some flexibility should, however, be maintained for developing countries to support, within limited ceilings, investments in the context of comprehensive structural reform, development and liberalization programmes;

A programme for a substantial reduction of agricultural support to producers over the reform period, including the removal of support having a significant impact on foreign trade; and

Reopening the Agreen box@ for authorized subsidies in the context of the scheduled review of the Subsidies Agreement with a view to renegotiating exemptions; substantially reducing regional subsidies; precluding subsidies for operative losses; restricting SME subsidies to really small companies; and removing subsidy cumulation. Within such a new framework, a "green box for developing countries" should specify the conditions, types, time frame and extent to which these countries may continue to apply certain subsidies for development purposes.

(c) Filling major gaps in the multilateral trading framework, in particular:

Liberalization of services of major export interest to developing countries: liberalization of the movement of workers, tourism and professional services which can be exported by certain developing countries (such as software programming, accounting, etc.);

Strengthening multilateral cooperation regarding international competition and, eventually, establishing multilateral principles and some specific disciplines to match increasing globalization of corporate strategies;

More effective special and differential treatment (SDT) to provide developing countries with effective equal treatment and tangible results. This requires measures which go beyond mere transition periods, thresholds and similar formal exceptions and which support effective change in production and trading conditions. Such measures are needed not only by least developed countries (LDCs), but also by the many other commodity- dependent and vulnerable developing countries. To that effect, the next trade negotiations should:

Liberalize in a lasting manner those products which LDCs, structurally weak and vulnerable countries can effectively export;

Introduce throughout the various WTO agreements measures of international cooperation and support to strengthen supply capacities and capabilities of developing countries, including op-