

THE EUROPEAN ECONOMIC COMMUNITY AND CHANGES IN THE INTERNATIONAL DIVISION OF LABOUR

(report of an expert group on the reciprocal implications
of the internal and external policies
of the Community)

This report was prepared by an independent group of experts brought together by the Commission in the context of its work on the evolution of sectoral structures.

The opinions expressed in this report should not be considered or interpreted as representing a viewpoint of the Commission of the European Communities.

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Brussels, January 1979

F O R E W O R D

The report of the experts' group, which the Commission asked me to chair, stems from the Council resolution of 8th November 1976, which agreed to "seek, on the basis of Commission proposals, an overall view of the reciprocal implications between, on the one hand, the internal and external policies of the Community and, on the other hand, development cooperation policy".

In a follow-up to this resolution, the Commission submitted to the Council in 1977 a staff working document which was discussed in detail within the Council by those responsible for preparing the discussions of the Ministers for development cooperation (*).

Discussions based on this document started up between the Commission and Member States and it was soon apparent that, on the one hand, the issues at stake needed to be better defined, i.e. the supposed changes in the international division of labour, and that, on the other hand, it would be necessary to go more thoroughly into the reasons behind the political orientations which might be adopted.

This is why the Commission, in order to clarify its diagnosis and help put together its position, called upon a group of independent experts who were all, in one way or another, at the center of work undertaken, often through political impulses, in their respective countries to gauge the effects on the national economy of changes taking place in the international division of labour.

This group of experts met 6 times between October 1977 and July 1978 at the Commission's headquarters.

(*) Reciprocal implications of development cooperation policy and of other Community policies.

In the course of its meetings the group worked on the basis of papers presented by each of its members. The resulting report fall into two parts :

- the first part devoted to the analysis of the new international division of labour and its consequences for the EEC was drawn up to a large extent by the secretariat on the basis of the papers presented and of the discussions which stemmed from them. These different papers are annexed to the report in the order in which they are referred to in the main body of its text ;
- the second part is devoted to the political orientations ; its different sections were drawn up by members of the expert group on the basis of working notes submitted to the group and which in the majority of cases were reworked in order to take account of the remarks which they generated.

The main thrusts of the report can be summarized as follows :

a) the analytical aspects

- For an economic entity such as the Community, at grips with profound changes in its international environment, industrial policies cannot be reduced to a simple adjustment to the demands of the international division of labour (i.d.l.). Changes in the i.d.l. constitute a process in which the Community is a participant and on which its internal and external policies can have an effect (First part, Chapter I, sections I, II, III).
- The EEC is still in a privileged position regarding the i.d.l. : as the main exporter of manufactured goods to developing countries it has not yet suffered the same sort of pressure of competition as the USA or even Japan. Nevertheless this situation is changing rapidly : it is now the EEC's turn to enter into the new i.d.l. The Community could react by putting a brake on access to its market of competitive products from developing countries, but this solution is probably not viable over a period of time and in any case is dangerous for Europe (Chapter I, section IV).

- Two of the factors in changes in the i.d.l. are the action of transnational firms and the development strategies of various categories of developing countries. There is, perhaps too often, a tendency to overestimate the former whereas the latter is fundamental. This means that for Europe the broad lines of its industrial policies must systematically be confronted with those of its third-world partners (Chapter I, section V).
- The impact of changes in the i.d.l. on the EEC's industrial structures is not confined to sectors which are labour intensive ; it can not be disassociated from other pressures for structural adjustments (demand, technology, etc...) (Chapter II, section I).
- The overall effects on employment of competitive imports from developing countries are relatively small compared with other variables which affect employment levels in the EEC. However, problems do arise from the fact that the negative effect on employment caused by changes underway in the i.d.l. is concentrated on certain categories of workers, firms and regions, whereas the positive effects (in terms of employment and consumers' revenue) are spread more widely (Chapter II, sections II, III and IV).

b) In terms of political orientations, the accent is put successively on trade policies in respect of developing countries, on internal adjustment policies, and on a few basic methods of linking the future growth of industrial countries with that of developing countries.

The trade policy orientations in respect of developing countries are based on several fundamental ideas (Second part, Chapter I) :

- . A mercantilist approach must be substituted by an approach which emphasises coherence in attaining multiple objectives, the chief of which is cooperation for the development of third-world countries.

- . Trade policy must go beyond the sphere of the quantitative organisation of product flows to embrace the regulation of relations between partners (which particularly implies that it deals explicitly with the sharing of the benefits drawn from international trade).
- . Trade policy must contribute towards facilitating the adaptations that are needed rather than acting as a brake on structural change. An exclusively commercial approach must therefore be replaced by an approach in terms of organising and adapting the structures of complementary activities.
- . Generalised interdependence requires the replacement of traditional approaches by product or by sector by a multi-sectoral approach to trade policy.

It is in this spirit that are tackled the questions relating to the modalities of free trade (information, selectivity, reciprocity), to its organisation (transition, rate of liberalisation, product agreements, MFA style), to its policing (safeguard rules, standards pertaining to working conditions, export policy), and to its differentiation on a regional basis.

- As for adjustment policies conceived as an alternative to protectionism, the report provides for (Chapter II) :

- . the establishment of an institutional link between the implementation of trade policies and that of adjustment policies ;
- . an anticipatory adjustment policy touched off by an "early warning system" using the means of a "second window" of the Social Fund enlarged for this purpose, as well as those of the Regional Fund ;
- . the exploitation of information received through the "early warning system" and in the implementation of the instruments of Community adjustment policy both internally (information from companies and from workers) and externally (in the framework of industrial cooperation with LDCs, for example the ACP).

The third level of policy orientation proposed by the report is that of the organisation of interdependence between the EEC and its third world partners. This issue is taken up under three headings :

- . that of industrial cooperation considered in the perspective of the industrial development of the LDCs but also in that of the gearing of EEC industrial policies to the growth of countries in the process of industrialising (Chapter III, section I) ;
- . that of the Community's dependence on mining and of its own policies designed to guarantee in time the diversification of its sources of supply through Community policy of mining cooperation with LDCs (Chapter III, section II) ;
- . that of cooperation in the domain of the transfer of technology by proposing own resources to increase the volume of transfers and by modifying their nature (Chapter III, section III).

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It is not up to me to portray the merits of this report but I am bound to underline its limits and acknowledge its shortcomings.

First of all limits : they are of two sorts and they are inherent in the nature of the task given to the expert group and in the composition of the group itself.

The report is devoted to the consequences of the new international division of labour for that group of industrialised countries that makes up the EEC and to the policy that the Community could adopt to influence this i.d.l.; and adapt itself to it. As it was conceived from the viewpoint and the situation of industrialised countries this report does not directly deal with the major options facing the developing countries themselves in their agricultural and industrial development policies.

One should not therefore in this report seek to find the viewpoint of the third world, even though the policy orientations proposed by the different members of the group deliberately give primacy to the requirements of international cooperation as opposed to the temptations of protectionism.

- The report is naturally flavoured by the shades of opinion indeed divergencies which appeared within the group. One of its members said that three types of positions were expressed concerning the new i.d.l. While putting himself in the first category he describes (caricatures ?) them as follows :

- i) a conventional neoclassical approach of "mutual interests" which considers the concept of comparative advantages as having a normative as well as a positive value in dealing with trade between developing and developed countries ;
- ii) an approach inspired by the theories of dependence according to which developing countries, in their exports of manufactures just as much as in their exports of commodities are inevitably exploited by the capitalist interest of the rich countries and which must therefore untie themselves from these relationships of unequal exchange ;
- iii) a protectionist approach of rich countries aware of the damaging consequences for themselves of trade with those countries that have recently embarked upon industrialisation and which holds therefore that rich countries should untie themselves from international trade.

In actual fact the members of the group who would not associate themselves with the first approach would no doubt energetically refuse to be classified in the two other categories and the third category in any case found little echo in this report. There remains the fact the differences between the members of the group in their theoretical and political approach to the problems was without any doubt an inevitable phenomenon which it would have been vain to try and disguise.

The main divergencies are to be found perhaps more at the level of analysis than at that of the orientations proposed ; these divergencies centered in particular around the concept of "structure preferences" proposed by J. De Bandt (see part I, pages 4 and 35) and on the negative verdicts pronounced by some against the extraverted forms of industrialisation adopted by Formosa and Hong-Kong for example (see the note of V. Cable concerning pages 8 and 9 of the part I).

Instead of seeking the superficial unanimity that goes with compromise motions we preferred to refer back systematically to the documents and notes which express the individual point of view of the different members of the group.

If these limits may be excusable, the shortcomings are a matter for confession. Personally I regret two shortcomings which seem to me important : the non-treatment of agricultural problems and the inadequate treatment of employment problems.

- The thrust of the group both as concerns the experts and the secretariat (implemented by the staff of the Directorate General for Development) operated in such a way that discussions centered on the industrial international division of labour. An exhaustive examination and exchange of views on the reciprocal implications between internal policies and external policies towards the LDCs should have led us to call into question the coherence of the common agricultural policy with a commercial policy open to developing countries' production.

This is an important question which the group was unable to cover adequately and which should be taken up again soon, all the more given the fact that for the southern Mediterranean LDCs it is at the heart of the issues of enlargement of the EEC.

- Another shortcoming regretted by the group was the fact that the chapter devoted to the consequences of the new i.d.l. on employment in the Community did not link up, in the part devoted to political orientations, with a consideration of employment policies, in particular where the possible conflicts between internal policies and external policies show up directly, that is the policies of Community Member States concerning access of migrant workers from third countries to the labour market.

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Despite all these limits and shortcomings I feel that the group fulfilled to a large extent the mandate which the Commission gave it. I would like to thank each one of the members of the group for the quality of their participation and the secretariat for the role it played in finalizing the report.

The Chairman
Paul-Marc HENRY

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PART ONE

THE NEW INTERNATIONAL DIVISION OF LABOUR (I.D.L.)
AND ITS CONSEQUENCES FOR THE EEC

CHAPTER I - CHANGES IN THE I.D.L.

I. TOWARDS A NEW I.D.L. ?

During the three post-war decades the main trends of international economic development have been :

- the acceleration of the growth of industrial production, in both industrialized and developing countries (between 1950 and 1972 the average annual growth rates for industrial production were :
 - 4.0 % in the United States
 - 7.1 % in Europe
 - 7.9 % in the other industrialized countries
 - 6.8 % in the developing countries
 - 5.9 % as the world average).
- the growing homogeneity of production and consumption structures in the most advanced industrialized countries, favouring an unprecedented intensification of interdependence between those countries' economies ;
- the acceleration of the process of capital concentration, leading to the internationalization of production under the aegis of a small number of transnational firms and to growth in trade between their subsidiaries (Michalet estimates that inter-firm trade accounts for 45 % of world trade (1)) ;
- a notable change in the relative importance of the major groups of countries participating in world industrial activity : between 1950 and 1970 respective shares of world industrial production changed as follows :
 - 45 to 33 % for the United States
 - 39 to 48 % for Europe
 - 7 to 9 % for the other developed countries
 - 9 to 10 % for the developing countries

(Source : UN Economic Survey of Europe - 1971).

(1) C.A. Michalet, Les firmes multinationales et la nouvelle division internationale du travail (Multinational firms and the new international division of labour), International Labour Office, Geneva, 1975, p. 32.

In the early seventies, two attendant factors indicated that this tendency, after operating in favour of the growth of European industry's relative weight in the world, could by the end of the century be reflected in the emergence of a number of third world countries as industrial powers.

These factors were :

- the desire shown by the developing countries to change the international division of labour in their own favour (Lima objective : to increase the developing countries' share of world industrial production to 25 % by the year 2000, and
- the growing role played by Western capital in the developing countries' industrialization process, which has the effect of diminishing one of the major obstacles preventing them from becoming internationally competitive - namely, inadequate technological and entrepreneurial capacity.

The relative importance of these two factors (collective self-development of the developing countries and the role of the transnationals) in the process, which could lead to a new i.d.l., has still to be determined (see below), especially as they are perhaps in opposition to each other to some extent. The fact remains that the prospect of a profound change in the international division of labour became plausible in the early seventies with the acceleration in the growth rate of developing countries' exports of manufactured products compared with those of the rest of the world.

Between 1970 and 1976 the 21 main industrialized countries' imports of manufactures (1) from the developing countries grew one and a half times faster than their imports of such products from all sources (26 % per annum from developing countries ; 18 % per annum from all sources (world)).

The developing countries' market share for the products in question in these industrialized countries accordingly rose from 4.9 % in 1970 to 7.3 % in 1976 (2).

(1) Not including petroleum products and unworked non-ferrous metals.

(2) Source : UNCTAD TD/BC2/190.

While the trend was clear-cut and rapid, the importance of this phenomenon is not commensurate with the emotions it aroused in most of the industrialized countries and the protectionist tendencies which rapidly materialized nearly everywhere.

There are probably two basic reasons for the hostile reactions to the consequences of the industrialization of the developing countries :

- the first has to do with prevailing circumstances : these changes in the geography of world production and trade are taking place against a background of sluggish growth and underemployment. It was therefore inevitable that these substantial changes in the market share of the developing countries should be held responsible for aggravating the economic situation of the industrialized countries, despite the modest nature of this market share and its minor role compared with all the other determinants of the world economic crisis ;
- the second reason is more fundamental : it has to do with the fear that intensification of the i.d.l. among countries with different development levels and often very different socio-economic systems will lead to sectoral specialization based on comparative advantages, which might be reflected in the industrialized countries by the disappearance of whole branches of industry, progressively transferred to the developing countries.

In other words, while the intensification of trade between industrialized countries with relatively homogeneous production and consumption structures entailed merely a process of intra-sectoral specialization without significantly changing the geographical location of sectors of activity, it is to be feared that this time the requirements of the new i.d.l. will cause upheavals in the industrialized countries structures of activity which are incompatible with their economic and social objectives (1).

(1) Gruber and Lloyd have shown that for "9 industrialized countries and Australia", intra-sectoral trade accounted for 38 % of total trade in 1950, 45 % in 1964 and 50 % in 1967 (Intra-Industry Trade, New-York, 1975).

II. I.D.L. AND INTERNAL INDUSTRIAL STRUCTURES

Completely free trade would mean that the definition of a country's internal industrial structure would be made entirely subordinate to the demands of the i.d.l. alone.

In Lima China, however, rejected the i.d.l. concept, thereby refusing to have the organization of its economic structures subjected to external constraints (1).

It may be noted, without subscribing to these extreme positions, that the internal industrial structures of an economic entity (country or Community) can never be purely and simply the product of the i.d.l.

This is firstly because of the existence of important sectors of the national economy which are sheltered from competition (non-traded goods : e.g. construction), but the prime reason why the analysis is not so simple stems from the fact that all societies allow limits (of varying explicitness and width) to the constraints of free trade.

Where the organization of the economic structures of an economic entity such as the EEC or its Member States is the subject of a policy (e.g. CAP or sectoral policy), that policy always raises the problem of how to reconcile two different kinds of requirement :

- that of the i.d.l., for which the liberalization of international trade is paving the way ;
- that of the "structure preferences", determined by reference to the pursuit of a complex system of economic and social objectives (2).

It is clear, for instance, that the rationality of the agricultural policies practised by both the United States and the EEC, rather than meeting the requirements of the i.d.l., fits in with the "structure preferences" of the national or Community authority.

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- (1) This was at the UNIDO Conference held in Lima in 1975, which set the target of 25 % of world industrial production in the developing countries by the year 2000.
- (2) See the memo by J. DE BANDT on (National) Structure Preferences, in the annex, and that of Mr THARAKAN, Some reservations on the "Structure Preferences Approach".

This being the case, for an open economy which does not intend to forgo the advantages of international trade (or which cannot afford to do so because of its dependence on external sources of supply), the internal structural policies can be analyzed in terms of degrees of convergence and compatibility between the two orders of rationality and requirement rather than in terms of submission to one or the other.

One of the major dimensions of the crisis which advanced industrial societies, particularly the EEC, are at present going through is precisely the awareness of an increased divergence and a lesser degree of compatibility between, on the one hand, the requirements of an i.d.l. in which new partners are inserted and, on the other, their national (or regional) "structure preferences".

The problem is complicated by the fact that it is not simply a matter of analysing in static terms the compatibility of the two types of requirement governing the structural policies of economic operators ; it is also and above all a matter of assessing dynamically their degrees of convergence.

Let us take some examples of various kinds. The first is provided by the policy at present followed by the Community in the steel sector : a temporary withdrawal from the constraints of the i.d.l. may be justified in the case of the European steel industry, for without such a move it might be feared that unbridled price competition would put out of business industrial entities whose viability, at the end of the present market crisis, could, however, be assured. In this example the difference between protectionism pure and simple and a policy which does not lose sight of the requirements of the i.d.l. lies in the intensity and quality of the restructuring efforts which the industry has to make in order to secure its reinsertion in a trade system subject to the imperatives of international competitiveness.

Policies for the protection of infant industry, policies for subsidizing the technological research effort and policies for public contracts fall into this category where they are aimed at modifying the structure of comparative advantages and consequently promoting a new i.d.l. rather than

adapting to the present one. Their success ultimately depends on a subjective factor : the assessment made by those who are to determine the medium-term trend of the i.d.l., and an objective factor : the capacity of an economic entity to modify for its own benefit the structure of comparative advantages, which in the last resort determines the forms of the i.d.l. (On this last point it should be noted right away that this capacity is not unconnected with the scale of the economic entity in question in relation to that of the world economy (see below)).

On the other hand, policies which, out of a desire to preserve economic structures or out of concern for national independence (or even prestige), run counter to the trend of the i.d.l. and are thus doomed never to be ratified by it. They will give rise to formidable problems of coherence between internal and external policies if one intends not to forgo an open door policy towards international trade. At any rate, they imply a social cost which must be set against the advantages arising from attainment of the objectives (political, social, cultural, etc.) pursued.

III. FACTORS DETERMINING THE I.D.L.

Contrary to the naive view of the i.d.l. as a categorical imperative applying to the industrial structures of each country open to international trade the aim of the analysis has so far been to assess to what extent internal policies are free from restriction (whatever the level of application : regional, national or Community).

- First degree of freedom : that of the interplay between the requirements of the i.d.l. and the rationality of "structure preferences" despite their inevitable convergence in the medium-term.
- Second degree of freedom : that connected with the capacity to act on the determinants of the i.d.l. and consequently to influence the forms a "new i.d.l." will take.

The concept of i.d.l. - if the definition given by J. De Bandt (1) is followed - involves three types of configuration of international economic relations :

- the international distribution of production activities (i.d.p.), as dictated by the structure of comparative advantages at international level and by the structure preferences at the internal level ;
- the ability to act on the structure of comparative advantages and, consequently, to modify one of the essential determinants of the i.d.p. ;
- the international distribution of the profits derived from production and international trade, which in turn influences the process of capital accumulation at world level and therefore constitutes one of the factors making it possible to act on comparative advantages.

The i.d.l. is therefore invariably the resultant of a complex set of economic factors and power relationships acting on the worldwide structure of comparative advantages. How these factors link up with one another can be traced on the basis of the main lines followed in explaining the structure of comparative advantages.

a) The theory of international economic relations provides two major lines of reasoning for explaining comparative advantages :

- the first links each country's comparative advantages to the factors it possesses (capital, natural resources, skilled and unskilled labour), as revealed by the structure of relative prices, which reflects (possibly in a distorted manner) the structure of relative scarcity ;
- according to the second line of reasoning the comparative advantages of the parties to an exchange are based on the size of the internal market which they control and with which they are familiar.

This explanation accounts for the pattern of trade between economic entities of the same level of development and therefore with a fairly similar relative price structure.

(1) J. De Bandt, Spécialisation internationale et structures d'activité industrielle (International specialization and structures of industrial activity), Cahier IREP n° 12, Paris, November 1975.

- b) The ability to act on the comparative advantages is the second level of analysis of the i.d.l.

It in turn has two aspects :

- the ability to control the links between R & D activity and the production process. As a factor making for specialization within the i.d.l., technological advance is provisionally of greater importance than the production factors which a country possesses.

Here it is obvious that the ability of countries, industries and firms to act upon their comparative advantages varies widely ;

- the ability to act upon the size of the internal market and to control that market.

In this sense the attainment of the common market is a decisive factor in modifying comparative advantages in favour of European firms. The other side of this is illustrated by the example of civil aeronautics, where the superiority of US firms is not attributable to greater resources as regards primary factors of production ; more convincing is the explanation that it is due to the mastery of a vast domestic market.

Therefore, it is hardly paradoxical to assert that the competitiveness of European industry at world level can also be achieved through the conquest (or reconquest) of its internal market ;

- c) The international distribution of the profits of the i.d.l. is the third level of analysis and the most decisive for understanding the dynamics of the phenomenon.

The mere fact that changes are noted in the international location of certain production activities is not yet reason enough to talk in terms of a "new i.d.l.".

Where, for instance, developing countries attract to their territory industrial subcontracting activities, by appealing to the traditional centres of industry to supply the strategic factors (capital, markets, technology, perhaps even skilled labour), this is not a profound

modification of the i.d.l. but quite simply the old colonial division of labour under a new guise, the exploitation of an abundant and cheap factor (labour) having replaced that of an exotic natural resource in the traditional set-up.

Under the colonial system as in the contemporary set-up, gains under the i.d.l. go back to the sources of capital and technology (in the form of profits and royalties) and to consumers in the importing countries via the deterioration in the exporting country's terms of trade (1).

The only difference between these two traditional forms of the i.d.l. - and it is a big one - is the fact that, as opposed to the colonial arrangement (manufactured products in return for raw materials), the contemporary set-up (manufactured products incorporating a high value-enhancing labour input in return for manufactured products incorporating cheap labour) leaves no room for the unskilled worker in the country where the process originated.

This having been said, contemporary phenomena cannot be reduced to such examples. The harbingers of the emergence of a "new i.d.l." are multiplying. In a number of developing countries the acceleration of an endogenous industrialization process, increasingly linked up with all the sectors of the economy, has been observed. Foreign capital and technology are involved in these developments, but their involvement is such as to guarantee that the control of capital accumulation (see Krupp-Iran agreements) is shared, and the same applies to control of the links between R & D and production (hence the insistence on the terms under which transfers of technology are take place).

(1) The deterioration in the barter terms of trade of developing countries specializing in the export of textile products is at least equivalent to that of raw material exporting developing countries ; the causes are, moreover, of a similar nature.

The new i.d.l. cannot therefore be interpreted by the old industrialized countries as a process foisted upon them from outside, to which they have no alternative but to adjust. It is also a process which they are underwriting by changing their investment habits abroad and by participating in the internationalization of capital and production.

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For an economic entity such as the Community, which is grappling with profound changes in its international environment and in its conditions of competitiveness, industrial policy cannot therefore be reduced to a mere adjustment to the requirements of the i.d.l.

Apart from the interplay already referred to between these requirements and the rationality of the "structure preferences", the ways in which the Community's internal and external policies can influence the determinants of the i.d.l. itself must be brought into play.

The main requirements are :

- for the Community to exploit its comparative advantages in the new i.d.l. which is taking shape ;
- for the Community to win new comparative advantages by dominating its potential internal market (which presupposes completion of the common market and monetary union) and through technological advance ;
- for European firms to participate in internationalizing capital and production under conditions which effectively contribute to the international distribution of income and know-how throughout the world and therefore increase effective demand at world level (this being something that the contemporary forms of the colonial i.d.l. do very badly) ;

- for the Community's external policies to encourage sectoral diversification and the spread of social progress in the developing countries, these being factors that are likely to intensify intra-sectoral trade (based on differentiation between products of the same kind) between industrialized and developing countries rather than sectoral specialization, which is sometimes incompatible with the "structure preferences" of the Member States and is invariably costly in social terms.

IV. THE EEC AND CHANGES IN THE I.D.L.

The major change in the i.d.l., which has been taking shape for some years, is the growing role played by a number of developing countries in the production of manufactures and trade in such products.

Even though exports of products manufactured by the developing countries accounted for only 8 % of world trade in such products in 1974, their growth rate has been considerably more rapid than that of other sources and has been accelerating compared with the trend of the preceding decades (see table below).

Imports of manufactures by developed market-economy countries (*)

	<u>From developing countries</u>	<u>World</u>
Annual average growth rate 1962-1973	17	14
Annual average growth rate 1970-1976	26	18

(*) Excluding petroleum products and non-ferrous metals.
Source : UNCTAD

While the competitive pressure of the developing countries on the economies of the advanced industrial societies was increasing in this manner the developing countries' market were assuming greater importance for the latter because of dwindling demand on the industrialized countries' markets.

In this connection it is interesting to compare the relative positions of the EEC, the United States and Japan in their trade relations with the developing countries (a distinction being made between non-oil developing countries and Opec countries).

The tables given below show that, for the period 1972-1976 :

- the EEC was the main exporter to the non-oil developing countries (in 1976 EEC = 100, USA = 88, Japan = 58) but the growth rate of its exports to those countries during the period 1972-1976 was well below that of its major industrialized competitors (table 1) ;
- the EEC was also the leading exporter of manufactures to the non-oil developing countries (EEC = 100, USA = 72, Japan = 63) but the general trend towards a weakening of its relative position was confirmed at this level too, though it is too early to say whether this was an "accident" confined to the subperiod 1972-1974 or a more durable phenomenon (table 2) ;
- the EEC was far and away the leading exporter of manufactures to the Opec countries (EEC = 100, USA = 45, Japan = 35) and the growth rate for its exports to those countries is of the same order of magnitude as that of the United States and Japan (table 3) ;
- the EEC was, and is tending to remain, the leading customer of the non-oil developing countries (EEC = 100, USA = 89, Japan = 45) (table 4) ;
- the EEC imports, on the other hand, less manufactures from the developing countries than the United States (EEC = 100, USA = 145, Japan = 32) but the growth rate for European imports is much higher than that of the United States and, since 1974, than that of Japan (table 5).

It will also be noted that while the developing countries broadly speaking occupy the same place as regards the major industrialized countries' exports of manufactures the developing countries' share of the EEC's total imports of manufactures is well below its share of the United States' and Japan's imports (see below).

Developing countries' share of trade in manufactures in 1976
(as % of total exports/imports of manufactures)

Countries of origin or destination	Exports to			Imports from developing countries
	non-oil developing countries	OPEC	all developing countries	
EEC	19	18	37	13.9
USA	24	13	37	20.7
Japan	25	14	39	24.2

Lastly, if the value of imports of manufactures from the developing countries for 1976 is related to the population of the countries in question it will be found that the EEC imports \$ 41 of manufactures per head
the USA \$ 50 of manufactures per head
Japan \$ 20 of manufactures per head.

Within the EEC itself the differences are considerable :

Netherlands	\$ 68
Germany	\$ 61
Denmark	\$ 56
United Kingdom	\$ 45
Belgium/Luxembourg	\$ 43
France	\$ 31
Ireland	\$ 25
Italy	\$ 19

From this set of findings the following conclusions may be drawn :

- the EEC still occupies a privileged position in the international distribution of labour : as the leading exporter of manufactures to the developing countries it is not yet feeling the competitive pressure from them to the same extent as the United States or even Japan. This is due in particular to the foothold which the EEC has managed to gain on the

markets of countries which are not yet very industrialized (ACP, but also and above all, Opec countries), while the United States and Japan are more involved in trade with Latin America and Asia ;

- the EEC's relatively comfortable situation here is unstable : the growth rate of Community exports to the non-oil developing countries is lower than that of other major industrialized countries, while European imports of manufactures from the developing countries are increasing more rapidly. It is therefore likely that there will be a growing tendency for the developing countries' share of the Community market for manufactures to approach the level recorded in the United States. Furthermore, since the differences between the EEC countries in imports per head exceed the differences in the respective per capita GDP figures, it has to be anticipated that increased liberalization of trade with the developing countries will affect certain Member States much more than others.

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Consequently the EEC too is being drawn into the new i.d.l. Initially, it is possible that there will be a gradual tendency to curb access to the Community markets for competitive products from the developing countries and at the very least to confine that access to products from countries which fall within its geo-economic sphere of influence, namely Africa, the Mediterranean and the Arab world.

Such a solution is probably unworkable in the long term and in any case it would be dangerous for Europe.

The EEC would be seriously jeopardizing its competitiveness vis-à-vis the other major industrialized countries if it were to cut itself off from cheap sources of supply of manufactures and semi-manufactures from countries outside its traditional sphere of influence while its competitors are making considerable use of those sources.

Furthermore, it would run the risk of closure to it of the more dynamic third world markets (except those of the Opec countries).

Lastly, its traditional export markets will also be subject to growing competition because :

- of the industrialization of the countries in question themselves ;
- the developing countries which are becoming industrialized are channeling a growing share of their exports of manufactures to other developing countries (31 % of these exports went to other developing countries in 1974-1975) and this share will grow all the more quickly as access to the industrialized countries' market is restricted ;
- because of their growing dependence on raw materials and energy products, Japan and, to a lesser extent, the United States are having to diversify their sources of supply in the third world and, as a result, the geographical spread of their exports.

As Ben Evers puts it, the developing world will be the principal arena for the competitive confrontation between the major central zones (EEC, Japan, USA) (1).

(1) Ben Evers, International Industrial Relocation some Factors of Change, Tilburg, November 1977.

Table 1 - The industrialized countries' exports to the non-oil developing countries

(in \$ '000 million fob)

	1972	1973	1974	1975	1976	Average annual increase in %	Index 1970 = 100
USA	11.02	16.46	24.78	26.80	26.32	24.4	239
Japan	7.69	10.94	16.35	15.49	17.40	22.7	226
EEC	14.83	19.10	27.41	30.49	29.77	19.0	200
Other industrialized countries (EFTA + Canada)	3.23	4.29	6.21	6.34	6.51	19.1	201
to the oil-exporting developing countries							
USA	2.57	3.41	6.23	9.93	11.70	46.0	455
Japan	1.86	2.72	5.45	8.42	9.26	49.5	497
EEC	5.73	8.03	13.50	22.88	26.20	46.5	457
Other industrialized countries (EFTA + Canada)	0.81	1.09	1.93	3.09	4.12	50.0	508

Source : GATT, Report on international trade in 1976 and 1977.

Table 2 - The industrialized countries' exports to the non-oil developing countries for three groups of products
(in \$ '000 million fob)

	1972	1973	1974	1975	1976	Average annual increase in %	Index 1972 = base 100
USA							
- foodstuffs	2.22	4.11	5.72	5.90	5.16	23.5	232
- raw materials	0.73	1.31	1.86	1.85	1.86	26.3	254
- manufactures	7.51	10.34	16.10	17.75	18.25	24.9	243
Japan							
- foodstuffs	0.18	0.28	0.30	0.29	0.30	13.7	167
- raw materials	0.37	0.53	0.76	0.61	0.78	20.5	210
- manufactures	7.01	9.93	14.90	14.26	16.04	23.0	229
EEC							
- foodstuffs	1.48	2.19	2.82	3.15	2.87	18.0	194
- raw materials	0.35	0.44	0.83	0.66	0.69	18.5	197
- manufactures	12.61	16.01	23.03	25.81	25.37	19.1	201
Other industrialized countries							
- foodstuffs	0.42	0.71	1.09	1.00	0.95	22.7	226
- raw materials	0.27	0.42	0.66	0.47	0.60	22.1	222
- manufactures	2.49	3.15	4.40	4.79	4.89	18.4	196

Remarks : See table 3

Table 3 - The industrialized countries' exports to the oil-exporting developing countries for three groups of products
(in \$ '000 million fob)

	1972	1973	1974	1975	1976	Average annual increase in %	Index 1972 = base 100
USA							
- foodstuffs	0.46	0.77	1.57	1.48	1.40	32.1	304
- raw materials	0.11	0.13	0.26	0.25	0.24	21.6	218
- manufactures	1.95	2.43	4.28	8.00	9.90	50.0	507
Japan							
- foodstuffs	0.03	0.07	0.07	0.07	0.10	35.1	333
- raw materials	0.05	0.06	0.17	0.15	0.16	33.8	320
- manufactures	1.77	2.57	5.16	8.12	8.93	50.0	504
EEC							
- foodstuffs	0.50	0.70	1.05	1.66	1.67	35.2	334
- raw materials	0.12	0.17	0.31	0.39	0.35	30.7	291
- manufactures	4.97	7.00	11.63	20.00	23.10	47.0	465
Other industrialized countries							
- foodstuffs	0.07	0.09	0.24	0.28	0.23	34.6	328
- raw materials	0.07	0.09	0.17	0.22	0.25	37.5	357
- manufactures	0.64	0.86	1.50	2.54	3.56	51.0	556

Remarks : raw materials include ores and non-ferrous metals
manufactures do not include non-ferrous metals

Table 4 - The industrialized countries' imports from the non-oil developing countries
 (in \$ '000 million cif, except for the USA and Canada)

	1972	1973	1974	1975	1976	Average annual increase in %	Index 1972 = 100
USA	11.65	15.70	23.83	22.14	27.60	24.0	236
Japan	5.21	9.19	13.14	11.48	13.95	27.9	268
EEC	13.75	20.02	25.96	26.11	30.93	22.4	225
Other industrialized countries	2.96	3.85	5.35	5.24	6.36	21.1	215
from the oil-exporting developing countries							
USA	2.69	4.59	15.65	17.08	25.01	-	929
Japan	4.57	7.00	19.96	19.42	21.85	48.0	478
EEC	13.23	18.82	45.62	40.87	46.27	36.8	350
Other industrialized countries	1.45	2.12	5.73	6.47	7.01	48.5	483

Table 5 - The industrialized countries' imports from the non-oil developing countries for three groups of products
(in \$ '000 million cif)

	1972	1973	1974	1975	1976	Average annual increase in %	Index 1972 = base 100
USA							
- foodstuffs	3.86	4.70	6.30	5.81	6.79	15.1	176
- raw materials	1.25	1.68	2.52	2.06	2.52	19.1	201
- manufactures	5.34	7.33	9.74	8.89	12.95	24.8	242
Japan							
- foodstuffs	1.18	1.86	2.77	3.35	3.27	29.1	277
- raw materials	2.77	4.31	5.40	3.75	4.71	14.2	170
- manufactures	0.76	2.21	2.52	2.00	2.88	39.5	379
EEC							
- foodstuffs	6.03	8.35	9.69	10.17	11.54	17.6	191
- raw materials	4.24	6.34	8.63	6.72	7.71	16.1	181
- manufactures	2.88	4.68	5.82	6.85	8.91	32.6	309
Other industrialized countries							
- foodstuffs	1.19	1.48	1.93	2.01	2.28	17.7	192
- raw materials	0.56	0.76	1.00	0.86	0.97	14.8	173
- manufactures	0.91	1.27	1.78	1.95	2.59	29.9	285

Remarks : the imports into the USA and Canada are fob

manufactures = CST 5 - 6 - 7 - 8 (- 68 non-ferrous metals)
raw materials = CST 2 - 22 + 68
foodstuffs = 0 + 1 + 22 + 4

CHAPTER II - FACTORS LEADING TO CHANGE IN THE I.D.L. : THE TRANSNATIONALS
AND THE DEVELOPING COUNTRIES' DEVELOPMENT STRATEGIES

The question of whether the increase in the competitiveness of the developing countries that are in the process of becoming industrialized is mainly the result of factors that are internal to their development process or whether it is essentially the result of outside forces is not easy to answer.

There may be a temptation to overestimate the role of the multinationals, and it should be noted that out of total foreign private investment in the developing countries in 1972 only 10 % was geared to the use of cheap labour for export production (for Asia alone, however, this proportion rises to 34 %).

To assess the relative importance of the various factors involved, it is necessary to draw a distinction between various groups of developing countries on the basis of the form taken by their industrialization process.

The following groups can be distinguished :

- a) the countries that are endeavouring to begin the industrialization process by developing their commodities and energy resources. This is the road being followed by certain oil-producing countries in particular. In this type of industrialization that is highly geared to the outside world, it is the States involved that take the initiative and financing decisions much more than the transnationals even if the collaboration of the transnationals is required given the fact that they have the technological and commercial know-how
- b) the countries whose industrialization is based on production for the mass consumption markets of the industrialized countries. Up to now, this type of industrialization has been the preserve of a small number of South-East Asian countries (or port-cities) and its main driving force has been the widespread Chinese population in this region of the world

The role of the transnationals in the origin of this type of industrialization has not been a determining one except at the commercial level (1).

- c) The countries that specialize in industrial sub-contracting activities. With this type of dependent industrialization, integration in the world market is mainly guaranteed by large or small transnational firms (see below). A number of Southern Mediterranean countries have seen this as a way of challenging the export enclaves of South-East Asia.
- d) The countries with a, sometimes long, tradition of industrialization for import substitution purposes that are now being increasingly obliged by external balance constraints to turn to foreign markets. This is the case with India and Brazil. In this type of industrialization, the role of the transnationals can be important but it is not clear whether there is any link here with the extent to which these countries' industrial economy is geared to the outside world. The proportion of production intended for export is not on average any higher in the case of the transnationals than in the case of local firms.

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This picture of the forms of industrialization in the third world sketched above is bound to change under the combined influence of the transnationals and the strategies that will be adopted by the developing countries under the pressure of the internal and external constraints operating on them.

(1) These are often the large traditional trading houses that arose during the colonial period.

1. The transnationals (1)

The increasing role of private capital in financial flows between industrialized and developing countries goes hand in hand with the expansion of the transnationals. Nor are the companies involved exclusively the major multinationals that control one or more entire sectors ; at the present time, there is a trend towards the internationalization of the operations of relatively small firms which are involved with only one product but are seeking to optimize their size and the distribution of their activities at both the production and marketing levels.

According to the neo-classical viewpoint, the expansion of the transnationals is explained by the fact that they bridge the gap between the factors that the countries involved can supply and the factors that are required for the given lines of production. Foreign private investment makes it possible to combine the two types of input, the countries' and the firms', and should therefore be concentrated in those industries that use natural resources and labour (the developing countries' input) and advanced technology - whether for production or marketing (the firms' input).

According to the unequal exchange theories, however, the driving force behind the expansion of the multinationals is the positive balance resulting from a comparison of productivity levels and relative salary levels in the industrialized and developing countries. Rather than entering into the details of this controversy, however, we should analyse how the transnationals actually establish themselves in the developing countries.

In 1972 direct external investment in the developing countries was still geared to highly capital-intensive industries :

- 42 % in mining and quarrying and agri-industry
- 48 % in protected industries
- 10 % (but 34 % in Asia) in labour intensive sectors.

(1) See annex : P.K.M. Tharakan, An appraisal of the role of the multinational companies in a new international division of labour.

In recent years, however, there have been signs of a change towards labour-intensive and export-gearred sectors. Subcontracting, which was first used by American (electronics) firms (1), was then taken up by Japanese and European firms (textiles, clothing, leather).

The countries wishing to play host to these subcontracting activities - which seem to be the answer to their employment and balance of payments problems - vie with one another in granting terms that are likely to attract foreign investment : tax advantages, indirect subsidies, "favourable" social legislation. The competing States, which have the raw materials and labour, are thus confronted with an oligopolitical organization of the transnationals, which control capital, technology and distribution (2).

2. The developing countries' strategies (3)

a) Increasing integration in the new i.d.l.

The growth in the developing countries' exports of manufactures reflects some success in this type of strategy, which is helped by the intensification of worldwide intra-firm trade. The question is whether this type of development can spread out beyond those countries that have practised it up to now with the greatest success.

Conventional wisdom in the early seventies systematically recommended this outward-gearred type of industrial development as the only one that could help ensure the utilization of the comparative advantages of the developing countries and a better allocation of their resources.

(1) Aided in particular by customs tariffs based on the value added to components of US origin.

(2) See UNCTAD - document TD/B/C.2/197 of 16 March 1978
The role of the transnationals in the marketing and distribution of the developing countries' imports and exports.

(3) See annex : B. Van Arkadie, EEC policies and the medium-sized semi-industrialized developing economy : alternative scenarios.

The attention of an increasing number of developing countries has been drawn to this approach by the success it has achieved as much as by the influence of the international bodies (IMF, IBRD) which have recommended this approach and helped in its implementation.

One might have thought that the success of this strategy, being linked with the rapid expansion of international trade, would have been undermined by the appreciable slowing down in growth in the industrialized countries after 1974. This did not happen, however, since the countries in the process of industrialization found an additional reason for trade aggressiveness in world markets in the worsening of their external balance problems following the increase in oil prices and the repercussions of world inflation on the price of the products supplied to them by the industrialized countries.

Nevertheless, a strategy of increased integration in the international division of labour faces the developing countries with numerous risks :

Although those countries that followed this strategy experienced rapid growth up to 1974, they were hard hit by the crisis in 1975 and are very vulnerable to the chaos in the international economic system, to the restrictive policies of the industrialized countries and to the ever-present possibility of a relocation of the operations of the transnationals. This latter threat is a real one for those developing countries that have not yet been able to create a domestic base for industrial expansion.

The risks are not only of an external nature : domestically, the forms of outward-looking industrialization have resulted in increasing inequality in the distribution of income (between town and country, between social categories), which generates political and social tensions that can be contained only by "strong" régimes.

Despite the risks it involves and its fundamental instability, the progressive development of growth strategies based on the export of manufactures cannot be ruled out : a number of developing countries that had adopted a different

model - that of import substitution - are now acquiring an industrial infrastructure that goes well beyond the requirements of their domestic markets ; the most advanced of these countries are responding to the restrictive practices of the industrialized countries by offering increasingly tough competition on third country markets, that is on the markets of other developing countries ; in the new i.d.l., certain countries in the process of industrialization which have a diversified and relatively integrated domestic industrial base (India and Brazil) are, in terms of power, in a different league to the export enclaves of South-East Asia.

This scenario, which in practical terms involves an increased role for the transnationals and increasing involvement with the developed economies, is not the only one, however.

b) Development based more on self-reliance

An alternative scenario gives greater place to the emergence in the developing countries of development strategies based on individual or collective self-reliance.

In reality, such policies, instead of stemming from a strategy in the proper sense of the term, are more a response to the rise of protectionism in the industrialized countries and to the lack of dynamism in international trade resulting from the extended world economic crisis.

In this scenario, which would see the resurgence of import substitution policies and the reaffirmation of the trend towards self-sufficiency in the name of national (or collective) independence, there might well be increasingly marked tensions between industrialized and developing countries concerning in particular the policies pursued in the field of raw materials and vis-à-vis foreign investment.

Assuming little growth in international trade, the trade confrontation of the major groups of industrialized countries on the markets of the third world could soon become a real battle, with official aid, protection for national capital invested abroad and other ways of exerting influence being used more energetically to defend trade positions.

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In the final analysis, neither of these two extreme hypotheses is particularly satisfactory from the viewpoint of the developing countries themselves. The risks of conflict are particularly high if the developing countries' industrialization effort has to be conducted in a depressed international economic context, with a persistently high level of unemployment in the industrialized countries. On the other hand, outward-looking growth in the countries that are in the process of industrialization may be easier for the industrialized countries to bear in a context of sustained expansion of international trade, despite (or thanks to) the enormous adjustment efforts it would require of them, but this outward-looking growth is likely to accentuate the differences between and within the developing countries : a few industrializing countries and a fraction of their population being increasingly integrated in the dynamic centre of the world economy, particularly via the transnationals, while there would be no or little improvement in the lot of the poor masses of the third world.

A middle road, which would require the industrialized countries to accept the adjustment constraints resulting from industrialization in the developing countries and would require the latter to pursue development based on the trend of their own domestic demand - particularly that of the rural masses - rather than on external demand, would be possible only if there is a considerably increased aid effort on the part of the rich countries. This middle road also presupposes a concerted effort to seek for points of complementarity in the industrial development of the developing countries and the new forms of expansion in the industrialized world.

For Europe in particular, this means that the major objectives of its industrial policies must be systematically viewed in conjunction with those of its third world partners, particularly in the context of group-to-group sectoral consultations (Lomé, Southern Mediterranean, Arab World, etc.).

CHAPTER III - IMPACT ON THE EEC OF CHANGES IN THE I.D.L.

I. ON INDUSTRIAL STRUCTURES

a) Identification of potential areas of conflict (1)

It is clear that the increase in the developing countries' exports is not due solely to the success of their industrialization policies but is also dependent to a large extent on the trend of the economic situation and policies pursued in the industrialized countries.

As a result, there is concern regarding potential conflicts between the objectives of development co-operation policy and of internal equilibrium within the EEC, insofar as any co-operation policy aiming to integrate the developing countries in the world economy will eventually change the i.d.l. and require a corresponding process of adjustment.

The generalized system of preferences (GSP), an instrument of trade liberalization that is non-discriminatory and covers all manufactured products, may represent a source of potential conflict here : the list of sensitive and semi-sensitive products in the GSP gives an initial indication of the potential areas of conflict.

It is also true that the preferences granted to the associated countries (ACP and Mediterranean countries) are much more considerable (unlimited market access) and are likely in the long term to have a much greater influence on trade flows ; in the short and medium term, however, these countries will not be competitors to be feared.

On the other hand, and despite a very restrictive system of ceilings and maximum country quotas (2), any improvement in the GSP prompts the fear

(1) See annex : D. Kebschull, Some thoughts on the identification of conflict potentials.

(2) It is estimated that the EEC's preferential trade does not exceed 5 % of extra-Community trade.

that the arrival of additional cheap products will aggravate the problems of unemployment in the threatened industries or regions. It is significant that there were no substantial improvements in the 1977 GSP.

An analysis of the repercussions of the GSP on productive industry enables an initial list to be drawn up of sensitive sectors that are threatened by competition from the developing countries, assuming an increase in the proportion of products imported under the GSP.

This analysis shows that the structural changes resulting from an intensification of relations with the third world are concentrated in the following areas of activity :

- the manufacture of electrical and electronic goods
- the manufacture of precision, optical and similar instruments
- the textile industry
- the leather industry
- the footwear and clothing industry
- the wood and wooden furniture industry
- the paper and paper products industry
- the rubber and plastics industries,

to which can be added certain subsectors of the following branches :

- oil refining
- the non-metallic mineral products industry
- the chemical industry
- the metal products manufacturing industry
- the construction of machinery and mechanical equipment (1).

(1) The identification of potential areas of conflict on the basis of an analysis of the GSP is just one of the possible methods. To give another example, the work of the Kiel Institute has identified the following activities :

- wood working
- electrical equipment
- musical instruments
- sports articles and toys
- leather production and processing
- footwear
- textiles and clothing.

The analysis of the repercussions of the GSP and of the potential conflicts that might be caused by a liberalization of trade flows in sensitive and semi-sensitive products from the most competitive countries is interesting for a number of reasons :

- it underlines the fact that no entire sector is threatened, but that the pressure is being felt at the subsector level and particularly in respect of specific products ; consequently, it is not unreasonable to think that the conversion of an industry within the same branch of activity should not present any insurmountable difficulties, even if competition became very keen in respect of a specific article ;
- it underlines the fact that it is wrong to make a blanket assertion attributing the difficulties being experienced by certain sectors to massive inflows of products originating in those countries to which the Community has granted preferential treatment ; in fact, the GSP has not had an influence on trade flows up to now and, as a rule, the increase in the developing countries' exports is not due to the preferential treatment granted to them (apart from the question of whether certain beneficiary countries are favoured more than others) ;
- it also throws light on the role of product differentiation in the dynamics of trade and in a great many instances confirms the trend towards intra-industry specialization.

Nevertheless, this type of analysis has many limitations :

- the statistical data permit only a static analysis of sensitive branches (over and above the exhaustive GSP list), and do not enable us to trace the dynamic effects of the developing countries' increasing competitiveness across the whole spectrum of industry, particularly as the EEC's preferential trade under the GSP accounts for only 5 % of total

extra-Community imports of sensitive products (16 % of imports from the beneficiary countries in 1976 and 27 % in 1975) (1).

Furthermore, this preferential trade is increased each year by a fixed amount that is lower (except in 1975) than the increase in total trade and, as a result, tends to represent a decreasing proportion of total imports from the beneficiary countries.

- the analysis of the potential conflict does not allow for the possible substitution effects of trade ; the granting of an annual preferential fixed amount could lead to a situation where the imports from the developing countries increasingly represented substitution rather than trade creation ;
- lastly, it must be added that the fact that the GSP has a limited scope does not underestimate the difficulties that certain European industries might encounter on their traditional export markets as a result of competition from the developing countries or the catalyst effect created in a firm or region when a subsector or branch is threatened (loss of markets, technical effects, regional effects, etc.)

b) Dynamics of the process (2)

In addition to the analysis of the sensitive sectors that are subject to increasing competitive pressure from the developing countries, an examination should be made of the dynamic process underlying the distribution of activities at world level in the years to come ; this examination should also show whether we should anticipate a consolidation of the trend towards a transfer of productive activities to the developing countries.

(1) Imports of sensitive textile products under the GSP accounted for approximately 3 % of total extra-Community imports of those products in 1975 and 1976.

(2) See annex : B. Evers, International Industrial Relocation, Some Factors of Change.

In an initial analysis, we can assess and differentiate between the trends towards the relocation of activities on the basis of the nature of the production process. Accordingly, four categories of industry are distinguished : processing industries, semi-finals industries, specialized capital goods industries, assembling industries.

This classification does not necessarily apply to single corporations but traverses the structure of firms. It seems to get closer to the reality of the situation than a sectoral classification insofar as it appears that what is happening in most cases is that there is no relocation of firms but rather a transfer of certain parts of the production processes of firms. In particular, this classification makes it possible to underline the measure to which productive activities have been internationalized and the role of merchant capital in relative competitiveness.

Processing industry (extraction of metals from ore, chemical processes, electricity generation, sugar manufacturing, ...).

Production and distribution in heavy manufacturing industry are dominated by the multinationals ; these industries are subject to a continuous process of centralization, particularly in view of the important role of economies of scale and the considerable level of investment.

Despite the capital and technological intensiveness of these industries, we believe there will be to a certain extent a relocation towards developing countries.

This corresponds moreover to the industrialization strategy of a growing number of developing countries, while a number of developing countries that are advanced further in establishing import substituting industries have a fairly large domestic market. It is difficult at this stage to calculate the repercussions on Europe since import substitution will reduce export possibilities while the beginning of industrialization in other developing countries may increase those possibilities.

In addition, there is a growing pressure from raw materials producing countries to have their exports processed locally : in the long run, and in view of the growing scarcity of raw materials in the industrialized countries, this may lead to an increase in relative prices and increase the developing countries' possibilities of developing an export-oriented production capacity. This industrialization is already developing rapidly in certain developing countries, in co-operation with Western firms, in the fields of petrochemicals, fertilizers, man-made fibres, and iron and steel.

There is reason to think, however, that this relocation of activities will not be very rapid over the next fifteen years and will be confined to the margin (i.e. new investment projects will increasingly be sited in the developing countries).

Even if the slowing down of the growth rate in the European Community threatens to aggravate the problems of overcapacity and to necessitate some restructuring and the elimination of certain production units, certain factors will at the same time help to check the relocation process. Firstly, the scale of the investment in question necessitates very great selectivity in relocation operations because of the political and economic risks ; secondly, it is to be anticipated that Europe will aim not to become overdependent on outside sources of supply and will use certain forms of co-operation to protect its markets or to encourage relocation in countries falling within the European sphere of influence.

The situation in light manufacturing industry (such as the food industry, the paint industry, etc.) is not altogether comparable. Economies of scale play a less decisive role here and the scale of the technology is smaller ; however, merchant capital forms a more independent factor.

With this type of industry it is mainly a question of import substitution in the developing countries, although in certain branches possibilities do exist for exporting to the industrialized countries. In such cases (particularly the food industries), merchant capital is actively involved.

Intermediate foods industries (leather, paper, plywood, fabrics, etc.)

These industries are very numerous and it is only possible to make some general remarks ; they are neither highly labour-intensive (in contrast to the assembly industries) nor highly capital-intensive (in contrast to manufacturing industry), nor highly technology-intensive (in contrast to the specialist capital goods industries).

In the future, we can expect a relocation of certain branches of these industries :

- firstly, of those activities that can quickly be satisfied by local production in the developing countries that are pursuing a strategy of import substitution ; above all, this will have an impact on the EEC's export possibilities ;
- secondly, of the intermediate production activities that - while not highly concentrated themselves - are clenched in between highly concentrated sectors (1) and are unable to pass on down the line increases in their own costs. Where the low cost of labour in the developing countries can compensate for the disadvantages of relocation, part of the intermediate foods industry may move to those countries and thence aim at the export markets.

Given the wide range of activities covered by intermediate industry, it is probable that the substitution effect will be quantitatively greater than the relocation effect and it is possible to anticipate a gradual but limited shift in the structure of trade and production over the next ten to fifteen years.

(1) "in between monopolistic input and output industries".

The specialized capital goods industry (machine tools, shipbuilding, assembly machines, etc.)

Above all, this industry utilizes capital and research, although certain branches also use a great deal of labour (in construction for example).

The developing countries' involvement in the production of capital goods has been very limited up to now and can make only very moderate progress, through import substitution, in those countries that already have a very large domestic market and whose industrialization process is already fairly well advanced (textile machinery, for example).

In view of the enormous technological lead of the Western economies, we must not expect fundamental changes in the international structure of production and trade in these types of goods. In fact, the most important changes will take place in the European Community itself, if slower growth and higher research and development costs accelerate the process of concentration and aggravate the problems of overcapacity.

Since all the Member States give priority to these sectors, the difficulties here can be resolved only at European level.

The assembly industry

This industry uses intermediate products and components for the production of finished goods, essentially consumer goods (cars, television and radio sets, beverages, ready-made clothing, etc.), although certain capital goods (lorries, simple standardized machines) can also be included in this category. This industry is highly labour-intensive and uses little capital or research.

There are branches with a low degree of concentration, in which merchant capital plays an important role (clothing, furniture), along with branches dominated by the transnationals (electronics, cars, etc.). In the branches in the first category (the very numerous family firms), the increase in productivity is very small, labour is essentially unqualified and wages are below the average industrial wage, which makes it very difficult to recruit sufficient suitable workers.

In addition, these firms have to cope with purchasing and distribution channels that are highly concentrated and monopolized and where price is the main essential criterion in selecting supplies on an international scale. The structure of international trade in these products has been modified considerably by direct investment (including joint ventures) and by commercial subcontracting, leaving the surviving firms no alternative but to internationalize their own production either by subcontracting part of their work to foreign firms or by transferring some of their activities to a low-wage country.

The main change in the i.d.l. between the industrialized countries and the developing countries has therefore occurred in this type of assembling industry and it is likely that this trend will continue, particularly in respect of those products that are not subject to important delivery date or fashion constraints.

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Analysis of the relocation trends by reference to the nature of the production process therefore makes it easier to assess and identify the pressures being exerted on productive activities in the industrialized countries :

- the transfer of activities is not confined to the labour-intensive sectors ;

- in addition, pressures are exerted not only by rising imports but also by export market losses, the concentration of activities within the industrialized countries and the existence of surplus capacity. These different types of pressure call for different kinds of adjustment.

However, it is important not to examine the prospects for the relocation of activities in isolation, without taking into account the factors of international competitiveness and the momentum of international trade.

The trend of internal demand worldwide and the growth of specialization in certain types of differentiated products are also factors which, within one and the same sector, may limit or aggravate the repercussions of the transfer of activities on international trade.

II. ON EMPLOYMENT (1)

Deterioration of the employment situation

The rapid growth of imports from the developing countries is often considered to be the principal cause of the deterioration of the employment situation in the industrialized countries. Hence the desire to protect employment is generally invoked as justification for import restrictions and, similarly, the sensitivity of a sector is often assessed solely on the basis of the employment criterion.

However, this phenomenon cannot be considered in isolation, that is without taking into account the overall trend of employment over a number of years and the structural changes influencing employment.

(1) See annex : Prof. Dr. V. Van Rompuy, L'extension des échanges p.i./p.v.d. et l'emploi dans les p.i. (The expansion of trade between industrialized and developing countries and employment in the industrialized countries).

It is a fact that since the end of the sixties both the volume and the structure of employment have undergone radical changes. These have resulted in an increase in unemployment during the period in question, despite the growth of trade and economic expansion.

- In the EEC, employment in industry has tended to stagnate since 1965 and has even declined since 1973, whereas previously industry was the chief source of jobs.
- Since 1973, moreover, the very marked slow down in the rate of creation of new jobs in the services sector has meant that job losses in the industrial sector - the pace of which has quickened since the onset of the recession - can no longer be offset.

Employment problems have been aggravated by a number of structural factors, including the following :

- the substitution of capital for labour as a result of the relative price trend of these two production factors ;
- the concentration of production ;
- the increase in the supply of labour (young people, women) ;
- the increase in the segmentation of the labour marked (leading to a decline in mobility) ;
- changes in the composition of demand.

Since 1975 these factors have been joined by the slow-down in growth and the decline in investment - the main feature of that slow-down.

It is quite clear that the growth of trade with the developing countries is only one of a number of factors contributing to the deterioration of employment, particularly since external demand - notably demand in the developing countries - has played an important role in supporting industrial activity and has helped to limit the decline in employment (see below).

It is therefore extremely difficult to assess the relative importance of the consequences of internal structural pressures and the recession, and the consequences of changes in trade flows.

Lastly, it should be pointed out that there are other factors which limit the part played by international trade in the recent deterioration of employment :

Thus, in industries not exposed to international competition, the stagnation of demand and of internal activity has resulted in an appreciable slow-down in the growth of the numbers employed (tertiary sector) and even in a decline in the construction industry : here the 500,000 jobs lost since 1973 represent 20 % of total job losses.

In addition, employment has fallen for the first time in the most dynamic industries, which derive the greatest benefit from the trend of international trade (capital goods, machinery, electrical equipment, etc.).

The growth of external demand (developing countries) is not enough to make up for the effects of the drop in investment in the EEC. As a result of the low rate of growth, moreover, firms are reluctant to take on new workers and prefer more flexible solutions ; such as more overtime and temporary jobs (a situation which adds to the instability of employment).

The same applies in the case of the textile and clothing industries, where the numbers employed continue to dwindle although exports to the developing countries have risen steeply since 1977.

Lastly, it should be recalled that the sectors traditionally affected by competition from the developing countries (footwear, textiles, jute, clothing) have enjoyed constant tariff protection since the sixties, although this has not prevented employment from falling. Moreover, trade protection has helped to encourage the use of capital at the expense of labour.

Studies undertaken in the Community

The question of the extent to which the liberalization of trade has contributed to a worsening of the employment situation continues nevertheless to be widely debated and has been the subject of a number of evaluation studies, notably in Germany but also in Belgium, France and the United Kingdom (1).

United Kingdom

One of the aims of the study carried out in the United Kingdom (2) was to evaluate the effect on employment of the growth of imports from the developing countries in the period 1970-1975, in four sectors chosen on account of the substantial share accounted for by imports from the developing countries : footwear, clothing, cotton fabrics and textile yarns.

It would appear that over the five-year period, taking all the factors into account (growth of productivity, change in consumption patterns and net import penetration), the annual decline in employment was 6.1 % in textiles, 4.5 % in footwear and cotton fabrics and 2.4 % in clothing. The study shows that employment losses as a result of imports from the developing countries amounted to only 0.05 % in textiles (yarns), 0.4 % in footwear, 0.8 % in the case of cotton fabrics and 1.7 % in the case of clothing.

It is also clear that job losses due to productivity growth are twice those resulting from higher imports. Furthermore, it would appear that although imports are an important factor in the decline of employment in textile and footwear, the chief exporters were not the developing countries but the state-trading countries and the industrialized countries.

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- (1) The results of these studies - for some of which very different methods were used - are not comparable on an international basis.
 - (2) V. Cable, Source of Employment Displacement in U.K. Industries competing with LDC Imports, April 1978.

France (1)

The French study examines the effects on employment of trade with the developing countries (imports and exports) from 1970 to 1976, and evaluates employment prospects for the period 1978-1985 on the basis of projected exports and imports.

This study shows that :

- trade in industrial products resulted in the net creation of 100,000 jobs between 1970 and 1976. However this overall assessment should be qualified as follows
 - trade with the developing countries resulted in substantial inter-sectoral conversion. Trade with the developing countries resulted in the net creation of employment in mechanical and electrical engineering (+ 13,000), shipbuilding, aerospace, armaments (+ 33,000), chemicals (+ 30,000) and first-stage metal processing (+ 25,000) ; however, trade pressures resulted in a reduction of employment in the textile and clothing industries (- 8,000), leather, footwear (- 4,000), wood, furniture and other industries (- 6,500)
 - the decline in traditional activities, even though offset by the development of exports of capital goods, causes serious regional imbalances as a result of the regional specialization of industry : in certain areas, the threatened activities account for nearly 40 % of industrial employment, whereas the industries exporting to the developing countries are generally more evenly distributed over the country
 - the average level of skill and wages in the threatened industries is lower than in the industries exporting to the third world.
- On the basis of extreme hypotheses of imports and exports, it would appear that between now and 1985 :
- . the growth of trade with the developing countries could affect industrial employment in France within a range of + 1 % to - 5 % (that is, + 50,000 to - 250,000)

(1) Commissariat Général du Plan, Effets du commerce avec les p.v.d. sur l'emploi en France (Extrait du Rapport sur l'évolution du tiers monde et l'appareil productif français).
Commissariat Général du Plan, Employment effects in France of trade with the developing countries (Extract from the report on third world development and French industry).

- . the total number of jobs that could be threatened, forcing workers to seek another job in the same industry or in a different industry, could amount to between 3 % and 7 % of the total employed in 1976 (that is, 25,000 - 55,000 jobs per year, two-thirds of which would have to be replaced by jobs in other industries) : the trend would be particularly unfavourable in the textiles and clothing sector but could also be significant in the leather and footwear, wood and furniture, "other industries" and glassware sectors
- . jobs created could amount to between 2 % and 8 % of the total employed by industry in 1976, equivalent to a rate of job creation of between 15,000 and 60,000 per year.

Belgium (1)

The study carried out in Belgium measures the impact of increased trade with the developing countries on employment and income assuming that imports and exports increase by the same amount (BF 1,000 million).

On the basis of this hypothesis the number of jobs lost and created per year would be 2,084 and 1,750 respectively, assuming that the structure of exports remained constant : the job losses would be mainly in the textile and clothing industries (- 560), footwear (- 119) and "other industries", including toys (- 112) and wood (- 39). Jobs would also be lost in the office machinery industry (- 25) and the chemical industry (- 20). On the other hand, employment would increase in the machinery construction industry (+ 172), metal products manufacturing (+ 108) and the electronic manufacturing industry (+ 101).

As regards GNP, the growth of trade with the developing countries means an increase in GNP despite the negative balance of employment by virtue of the switchover to activities where wages and productivity are higher.

(1) Paper by Prof. V. Van Rompuy on the effects on the Belgian economy of external trade with the developing countries, Leuven, 1978.

Italy (1)

The particular problem in Italy's case is that the main repercussions of trade with the developing countries might be felt where the regional imbalances are already most marked : the North-West (Lombardy, Piedmont, Liguria), which is highly industrialized, the North-East and the Centre (down to Tuscany) and the South will be affected very differently.

The Centre and North-East, though possessing industries where the competition from the developing countries will be stiff (light mechanical engineering and other labour-intensive industries), have the advantage of a fairly flexible industrial fabric of very dynamic small and medium-sized firms.

Overall, the North-West should also adapt despite the concentration of certain activities (the traditional textile industry) in a number of towns.

In the South, on the other hand, the shift towards a more capital-intensive type of industry (plastics, fibres, refineries) has been concentrated in sectors that are in difficulties and are not widespread geographically (often a single large factory is the only employer in the region). This will make the readjustment all the more difficult.

Germany (2)

The employment effects of the adjustment to allow for the trade with the developing countries have been estimated by the DIW (3) up to 1980 and by the Kiel Institute (4) up to 1985.

(1) Paper by Prof. C. Secchi, June 1978.

See also : Some (approximate and preliminary) calculations on the employment effects in Italy of increased competitive imports from ldc's (annexed).

(2) Paper by F. Wolter, Estimates of Employment Effects of an Increasing Division of Labour with Developing Countries, FRG, Kiel, February 1978.

(3) Deutsche Institut für Wirtschaftsforschung, Berlin.

(4) Institut für Weltwirtschaft, Kiel.

The effects of external trade on industry as a whole up to 1985 (excluding oil, shipbuilding, aircraft manufacture and data processing) are likely to be the net loss of 692,000 jobs, two-thirds of this loss being as a result of trade with the developing countries. These figures represent 8.8 % and 5.7 % respectively of the number of persons employed in 1974.

The DIW study, which was restricted to the sectors of industry subject to the greatest competition (manufacture of precision optical instruments, textiles-clothing, leather goods), estimates at almost 100,000 the gross loss of jobs in these sectors between now and 1980. To this figure must be added 50,000 jobs lost as a result of indirect effects. The clothing industry is by far the hardest hit (1).

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The principal conclusions that may be drawn from these studies on the impact of trade with the developing countries on employment are as follows :

- employment in the industrialized countries depends on a number of variables among which the influence of imports from the developing countries is by no means the most significant ;
- the impact of the growth of imports from the developing countries on the overall level of employment has so far been slight. In the coming years the effects on employment of the growth of trade with developing countries will probably be adverse but not disastrous.

However, the real problem arises from the concentration of the adverse effects on certain groups of workers and on certain firms or regions, whereas the positive effects are more widely distributed and require workers to switch to a different sector of activity and sometimes to a different kind of work.

(1) These latter estimates do not allow for the indirect creation of jobs as a result of the increase in exports of other goods made possible by trade liberalization.

These methods of evaluation are still very approximate, however, and are strongly criticised by certain experts :

- to begin with, the methods of evaluation are purely static and rest on simplified working hypotheses : unchanged relative prices, homogeneity of products, stable structure and composition of trade, unchanged employment coefficient, etc. They do not take account of the momentum of the trend of trade and international competitiveness ;
- in addition, the statistical information is not sufficiently refined to provide a basis for a practical study of restructuring problems : the employment situation may be very different at the sub-sector or product level ;
- lastly, the examination does not take account in most cases of the operation of the labour market itself (mobility, level of skill, etc.), the structure and trend of the market, the trend of productivity, etc.

It is therefore essential that work be continued so that we have a better idea of the net impact in employment terms of the liberalization of trade with the developing countries, particularly on a regional basis.

III. ON CONSUMERS (1)

The strength of protectionist tendencies can be accounted for fairly well by the fact that the negative effects are concentrated in certain industries and in the regions where those industries are located, which means that the reactions of the industrial and trade union organizations concerned and of the local political authorities overlap. Inversely, the positive effects of an increased or improved i.d.l. are more diffused in time and geographically ; herein lies there weakness, for governments are eager for short-term results, and people in general have neither the awareness nor the organization to defend their interests as consumers.

(1) See annex : V. Cable, Consumer Benefits and Trade Liberalization.

1. The effects of trade liberalization on consumers can be summarized as follows : a consumer surplus effect, the possible repercussions on prices of economies of scale, an effect on the general development level of the developing countries, and a redistribution effect :

- in static terms, the consumer surplus, apart from its fault of being a psychological and theoretical concept, is appreciable only if the drop in price due to the opening-up of customs barriers is very considerable, in other words, if highly protected products are involved (clothing, agricultural produce) ;
- in dynamic terms, consumers should benefit from the economies of scale made possible by production at world level, provided that this production does not take on a monopolistic form as a result of the concentration of economic power. Conversely, the competition from external trade can take the place of anti-trust policies in numerous European industrial sectors that are already highly concentrated and thus inclined to restrictive practices ;
- the widespread practice of proportional margins amplifies the price movements of imported products at final consumption level. Those who believe in cost-push inflation lay particular stress on this danger since the repercussion of prices on wages is asymmetrical ;
- the distribution effects boil down to a transfer from the producers to the consumers : the domestic industries exposed to the competition from importers would be obliged to reduce the remuneration of their factors of production. In respect of final products such as agricultural produce, clothing and footwear, which represent an important item for low-income households, the effect would, in the fiscal sense, be progressive rather than regressive. As regards intermediate products, it is clear that part of the cost of protecting manufactures of steel or yarn falls on the industries that use those products.

2. Certain people maintain that commercial policy should not attach too much importance to consumers' interests since any resulting benefits would in any case either be "confiscated" by the importers or unjustified in times of high unemployment ; they also maintain that in any case it is more realistic politically to give preference to defending producers' interests :

- the importers' margins are probably larger than those applied to domestic lines of production. It is nevertheless a fact that the increase in demand for imported products, which is what actually triggers protectionist measures, is due to the fact that the price differences are absorbed only partially by the importers' larger margins and are in fact passed on to the consumers. Moreover, importers are able to allow themselves these large margins because of the existence of restrictive measures (GSP quotas for example) and not because of the lack of them. Lastly, as is happening with textiles, competition from imported products would oblige European producers to lower their prices. If this effect is made by semi-monopolistic practices at the import and marketing stages, this means that there is a need for a firmer anti-trust policy and not for more protectionism ;
- on the pretext of defending employment, less importance is given to the consumers' interests. The main cause of unemployment is probably inflation (or the restrictive monetary policies provoked by inflation (FRG, United Kingdom, France)), which is fed by trade restrictions. There would therefore be a contradiction between external and internal macro-economic policies. Any attempt to plead balance of payments constraints is suspect since, particularly in Germany, the policy pursued here amounts to subsidizing imports and taxing exports ;
- government policies are probably dictated more by electoral concerns and producer pressure groups. Rare are the cases where the possible reactions of consumers are taken into account - one example being food prices.

The proliferation of "special cases", for which the public authorities are asked to allow derogations or protection, and the fact that these sectors represent an increasing proportion of total production (agriculture, textiles, clothing and footwear, steel, automobiles), represents a real danger to any overall policy and dilutes the advantages that certain sectors do derive from protectionism.

3. The major weakness of consumer benefits is the fact that they are difficult to demonstrate. Nevertheless, even if these benefits are restricted to the single and static case of consumer surplus, it is seen that they exceed the redeployment costs (losses of production, and thus of income, throughout the transitional period leading up to a new allocation of the productive resources). The quantification of these benefits and costs, even if relying on many assumptions (elasticities in relation to prices, customs duties equivalent to quotas, attribution of a given proportion of the permanent unemployment to trade liberalization, etc.), does however lead to convergent conclusions :

- from the cost-benefit viewpoint, the balance of trade liberalization is indeed positive ;
- the advantages are all the greater where the liberalization affects highly protected sectors, or sectors (e.g. textiles) that pay low wages.

Conversely, benefits may not balance the costs in sectors that have little protection and have a well-paid labour force (steel, automobiles). Except in highly protected sectors, the net benefits of liberalization are less than the benefits of the resultant redistribution between consumers, producer and government.

IV. ON THE REGIONAL UNBALANCES IN THE EEC (1)

We have to distinguish between the problems posed by the really backward regions - which need a specific regional policy - and those posed by the regions going through a process of restructuring - which need an adjustment programme.

1. Regional unbalances in the EEC

On the basis of 1977 data (2), the structurally backwards regions could be identified as follows :

regions with a GDP per capita less than 70 % of the Community's average :

Italy - the Mezzogiorno, Abruzzi, Marche, Umbria

Ireland - the whole country

Belgium - southern regions

Denmark - Greenland

Similarly, the other weak regions could be :

regions with a GDP per capita between 70-90 % of the Community's average :

Italy - Centre and north east

France - Languedoc, Midi-Pyrénées, Limousin, Poitou-Charentes

The Netherlands - the north, except Groningen

United Kingdom - South west, Wales, east Anglia, Yorkshire and Humberside, north, northern Ireland

Not necessarily the second group includes the "regions going through a process of restructuring", while the latter could be also elsewhere. However, these are regions with a relatively weaker economic structure with respect to the Community's average. Thus, the problem of regional unbalances (apart, of course, from the structurally backward regions), a possible general slow-down of the economic activity, and possible problems of adjustment should be felt - coeteris paribus - more here than in other regions.

(1) by Carlo Secchi

(2) The Community and its regions (European Documentation, 1977/4), p. 4.

These areas, consequently, present a set of constraints for the working of the European Regional Development Fund (ERDF). As it is known, ERDF priority areas are mainly the following regions : southern Italy ; Ireland ; Northern Ireland, and the special development and development areas in the United Kingdom ; the West and the South-West of France ; the regions on the eastern frontier of the Federal Republic of Germany ; the mining areas and farming areas of Belgium and Luxembourg ; the north of the Netherlands ; Greenland.

Other EEC intervention instruments also tend (or should tend) to give priority to these areas. This applies to the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF), the European Investment Bank (EIB), etc. (1). Also other intervention schemes (like the Mediterranean package under discussion) are mainly set up for the weakest regions.

2. Regional aspects of the adjustment problem

The regional problem and the adjustment and restructuring problems are clearly strictly connected. The Community's regional policy is among the most prominent candidates for having conflicting goals with her development cooperation policy. While regional policies aim at reducing the large interregional disequilibria in terms of per capita income or employment opportunities within the Community, the main objective of development cooperation policy - an intensified or deeper division of labour with developing countries - may accentuate such imbalances. For, it can be safely assumed that import competition from developing countries exerts different adjustment pressure interregionally ; and, more specifically, there are reasons to expect that the adjustment burden weighs relative heavily on the Community's less developed regions :

(1) See C. Secchi's note on "Implications of the Community's regional policy (and related policies)", 15 November 1977 (annexed).

- 1) The production structure of less developed regions is likely to correspond more to the production structure of developing countries than that of more advanced regions, and hence, is more vulnerable to import competition from low-wage countries. Although no systematic effort has been made to test this proposition across all regions of the Community, empirical evidence for a number of member-countries tends to support this hypothesis.

- 2) Across industries (and other economic activities), less developed regions seem to be in an unfavourable position with regard to import competition and export possibilities in trade with developing countries as well. For, in their industrial structure such small-scale and medium-scale firms typically prevail, which, due to little market transparency, little access to "facts behind the future", bottlenecks in management and other labour, have a relative low potential to adjust to changing market conditions. In other words : mobility of capital and labour seems to have left these regions with an above average share of marginal suppliers.

- 3) In addition, backward regions' capability to adjust largely suffers from the absence of external economies which are present in the economic centres such as low communication and transport costs, availability of service facilities, and an elastic supply of skilled labour.

Therefore, regional policy has to be well coordinated with development cooperation policy in order to neutralize harmful regional side-effects of trade liberalization with developing countries while avoiding simply substituting regional aid for trade protection. Implicitly, this calls for significant changes in regional production structures.

PART TWO

POLICY GUIDELINES

CHAPTER I - GUIDELINES FOR COMMERCIAL POLICY VIS-A-VIS THE DEVELOPING COUNTRIES (1)

INTRODUCTION

The suggestions made below with regard to commercial policies are based on a number of basic ideas which should be briefly defined :

1. The first idea, which underlies this whole report, stems from a serious concern for coherence as regards the objectives, means and instruments of the various policies. This means in particular that commercial policy must of necessity take account of the industrialization and development targets of third world countries.

The mercantilist approach - centred on the achievement of equilibrium or surpluses in trade - must give way to an approach which lays stress on coherence in the achievement of many different objectives.

2. The second idea is based on the fact that commercial policy governs a country's relations with its partners : the somewhat narrow concept of commercial policy as a body of unilateral measures governing inflows (mainly of products) must now, it would seem, give way to a broader concept of bilateral or multilateral arrangements for ordering mutual relations. Commercial policy must transcend the quantitative organization of product flows and apply itself explicitly to sharing the benefits derived from international trade.

The policing of product flows must be replaced by the regulation of relations between partners.

(1) Drawn up by J. De Bandt (except for the last section of this chapter).

3. The third idea is based on the fact that although international trade is to a great extent a necessity which offers a number of advantages in terms of resource allocation, it also involves a number of distortions or irregularities - unfair competition, unequal terms of trade - and is liable to entail considerable economic and social costs which in certain circumstances may even be unacceptable. In aiming to maximize the advantages of trade and ensure that they are fairly spread, commercial policy must endeavour to take into consideration the short-term constraints that exist. But there can be no question of sacrificing long-term advantages to short-term benefits. In other words, commercial policy must help bring about the required adaptations rather than hold back structural change.

An approach geared exclusively to trade must give way to an approach based on the adjustment of complementary structures.

4. The fourth idea stems from practical findings with regard to the application of commercial policies and international trade agreements : in practice there is a constant tendency for these policies and agreements to be biased towards protectionism. For this reason it seems essential to replace the confusion that exists between the various types with clear distinctions between different categories of objectives and instruments. By way of example the following must be placed in separate categories :

a) the problems of choosing between protection and free trade, given that in practice the choices made are more often than not a matter of degree. What is involved here is basically a comparison of the requirements of the international system with a number of internal requirements or objectives.

b) The problems of structural transition or adjustment, seen in the light of new facts or requirements. Here the constraints are more short-term, and it is a question of facilitating the adaptations and reducing their cost. Unless they are obligatorily transitional, measures taken in this respect can call into question all or part of the choices made under a).

- c) The problems of regulating international trade flows : it is a matter here of facilitating traffic, preventing unfair competition and avoiding disruption.

By clearly distinguishing the various categories of problems, a situation should be avoided where the solution of short-term problems prejudices the fundamental, longer-term options.

5. The fifth and last idea stems from the concept that there is generalized interdependence within the various economic systems in the same way as there is interdependence between the economic systems themselves. Insofar as this interdependence affects us, it must be integrated as such in the very concept of commercial policy, as opposed to more traditional approaches based on individual commodities or sectors which obstruct attempts to take into account all the constraints and interests involved, at the same time hiding from view the overall effects of some event or measure, and also prevent divergences between specific interests from being overcome, for this is only possible if they are balanced against other lines of divergence in an overall framework (1).

A product-by-product approach must be replaced by a multisectoral approach.

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The implementation of these ideas calls for the definition of a number of guidelines for action (see below). They are grouped under three headings which deal successively with :

(1) "Given the conflict of interests, it is not very realistic to consider that an agreement could be reached on one of the elements of the "package" taken in isolation ; on the contrary, each of the partners will have to consider all the advantages and concessions in the various areas".
Statement by Mr Haferkamp to the Council (I/236/78-F).

- the mechanics of free trade, i.e. the substantive issues in international trade ;
- the organization of free trade, i.e. the problems of adjustment and adaptation ;
- the regulation of international trade, i.e. the rules and procedures designed to ensure smooth trade flows.

The list of problems dealt with below is a selective one. Some problems are not dealt with here, or are covered elsewhere in this report.

However, it is perhaps useful to mention the following borderline problems :

- the treatment of multinationals, which obviously goes beyond the framework of commercial policy, is likely to be the subject of a fiscal approach (exemption from double taxation or income tax, price of transfers), a social legislation approach (labour standards, including standards in foreign branches) or a regulatory approach (codes of conduct) ;
- the problem of the organization and the rates of trade liberalization is inseparable from the establishment of adjustment policies and capacities (see chapter II) ;
- commercial policies, insofar as they aim to correct, diminish or compensate for factors of competitiveness, are inseparable from those factors; the same applies to technology ;
- commercial policies, which relate primarily to products, are also affected by the conditions governing the movement of labour and capital ;
- insofar as changes in parity or exchange rate fluctuations affect, sometimes to a considerable extent, the relative levels of competitiveness, commercial policies cannot ignore this important, and in some cases decisive, aspect of the problem.

Lastly, it should be noted that selectivity in the treatment of partners complements, or represents an alternative to, aid or cooperation measures. Moreover, since the Community sees a strong link between trade liberalization and a "regionalized" approach to relations with the developing countries, the last section of this chapter (1) deals with the possible ways in which the regional approach could be applied in trade relations with the developing countries.

I. THE MECHANICS OF FREE TRADE

The fundamental options in favour of the liberalization of imports from the developing countries are not based on a blind faith in the merits of free trade and do not therefore aim to make industrial systems subject only to the requirements of international market mechanisms. Free trade, necessary though it may be, is not sufficient on its own to ensure either an optimal division of labour or optimal distribution of the profits from trade. Above all, it cannot guarantee the realization of the various countries' particular economic and social objectives.

Now, one of the main aims of commercial policy and the *raison d'être* of the fundamental options in favour of free trade is to make the demands of the international division of labour compatible - or less incompatible - with the achievement of internal objectives (2).

The liberalization of imports from the developing countries is designed to facilitate their integration in the international trade system. It is one of the means of realizing those countries' industrialization and development objectives.

The methods used to liberalize trade between developing countries and the Member States of the European Community should therefore be assessed in terms of these objectives, but the Member States' constraints should be taken into account too.

(1) Drawn up by V. Cable.

(2) J. De Bandt, *Spécialisation internationale et structures d'activité industrielle*, Cujas, Paris, 1975.

a) The degrees of free trade : information and transparency

Although it has been decided in principle to opt for free trade with the countries of the third world, in practice there are various types of barriers and restrictions. Free trade is, in fact, a matter of degree.

In this connection, it seems necessary to lay stress on the following points in this chapter dealing with the instruments :

- the choices regarding free trade, or more especially, the degrees and the mechanics of free trade, must be made clear. In other words, bearing in mind the diversity of the interests at stake, these choices should be made clear in relation to the whole gamut of social and economic objectives, taking into account a reasoned assessment of the costs and benefits involved ;
- in view of the many different barriers and obstacles to trade, in particular non-tariff barriers, substituting explicit choices for sets of measures and de facto barriers stemming from a variety of socio-political and economic pressures would involve the establishment of information systems enabling a certain degree of transparency to be achieved, thereby ensuring that the practical situation matches the choices based on principle ;
- unless there are specific and exceptional reasons for acting otherwise, such as considerations of security or independence, exceptions to the principle of free trade for certain products can be justified only as a strictly transitional measure. This has to do with the problems involved in the organization of free trade rather than with the principle itself.

b) Selectivity : differentiated preferences

Among the possible approaches to free trade the question of selectivity or discrimination in the treatment of the various trading partners is being raised at present ; this is diametrically opposed to the principles of equal treatment upheld previously.

It must of course be observed that the situations of the various trading partners in the third world are extremely varied and there is every reason to believe that the differences will become even bigger in the future (1).

In fact, the proposals made in this connection are based on two attitudes which are in total opposition to each other. For some it is a matter of limiting access to the markets of the developed countries for those countries whose export performances are the most significant and which thus represent the most serious threat. Others feel that preferential treatment should be given to the countries with the greatest handicaps compared with the other trading partners (2). While the first attitude is manifestly inspired by protectionism, the second aims to use (preferential) access to the markets as an instrument of development aid (3).

Justifying selectivity may appear to pose problems.

To take the theoretical reservations first, compared with the principle of free trade selectivity in access to markets makes little sense in itself ; it only makes sense if we accept that, in practice, there exists a certain degree of protectionism, by reference to which it is possible to grant differential advantages.

The practical reservations appear to be more important. First of all, preferential advantages are often "nibbled at" ; this can happen when the advantages are defined, through the introduction of a varying number of exceptions, or in practice, either because of the processes of liberalization and regional integration or because of the existence of de facto restrictions of a more or less hidden nature ; secondly, the advantages thus afforded tend to be used as excuses for getting round the need for more direct action.

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- (1) These differences between the third world countries (up to the year 2000) are brought out in the work of Interfutures.
 - (2) This second attitude is obviously the one underlying the demands of the poorest countries, which are anxious to maintain or increase their margin of preferential treatment.
 - (3) One often moves imperceptibly from the second to the first, that is to say from the idea of selective advantages to the idea of discriminatory restrictions, the arguments in favour of the first often being used as a pretext to justify the second.

Whatever the reservations, the function of selectivity must be to integrate in explicit fashion the development aims of the partners affected. It is however, not so much a case of trying to guarantee development directly in this way as of increasing the degree of consistency between commercial and development aid policies by endeavouring to offset the serious handicaps of certain partners. These handicaps adversely affect their competitiveness and are likely to aggravate their relative underdevelopment.

Nevertheless research should be conducted in order to assess better the real usefulness of such preferences, the effectiveness of which - given their volume - is challenged by some.

Finally, as regards the selection criteria, on the positive side selection should be based on this need to offset specific handicaps (for example, the absence of access to the sea, the lack of a minimum level - to be defined - of industrial structure, the fact that the external value of remunerations is lagging) and on the negative side it should not result in giving preferential access solely to those countries which are not in a position to profit from them.

c) Reciprocity in bilateral relations

The question of reciprocity is similar to that of selectivity, for the demands in this area often stem implicitly from protectionist concerns : access to the market is used as a bargaining counter and is reduced where the partners concerned are unable to accept reciprocity.

Is trying to dictate the trade policy of third world partners in this way justified ?

Certain people think, rightly doubtless, that apart from the barriers to trade justified by the need to protect an infant industry, the custom barriers in a large number of third world countries are quite excessive, encourage inefficiency, and are the source of revenue.

If this is so, reciprocity - in removing the disadvantages mentioned above - should be of benefit primarily to third world countries.

One may well ask how this reciprocity would benefit the developed countries ; since the developing countries tend to spend all - and indeed more than all - their revenue from abroad (1), the developing countries would hardly be able to increase their purchases simply as a result of the liberalization of access to their own markets.

It is of course necessary, in this overall line of reasoning, to except certain countries whose industrial export performance leads to an accumulation of trade surpluses. But generally it is not these countries for which reciprocity is a problem.

What remains therefore of the demand for reciprocity ?

If there is in fact a link between liberalization of trade, efficiency and export performance, one would only, with some reservations, have to try to convince countries entering the international trade system of the need to accept this kind of constraint. But this can only be the result of a gradual process during which the countries acquire the industrial control that is essential.

It applied immediately reciprocity would lead to considerable, and doubtless irreparable, damage in numerous third world countries.

(1) Certain distinctions could naturally be made in order to take account of the different situations in the various developed countries. But the argument clearly applies to the countries of the European Community.

The question of reciprocity should then be considered only when excessive trade surpluses accumulate. Apart from such cases, which would after all be exceptional, reciprocity appears to be only one of the dimensions of long-terms industrial cooperation projects.

Attention should, however, be drawn to one particular aspect of non-reciprocity, or rather of the existence of high customs barriers : since such barriers can produce revenue on the domestic market, they can also as a consequence give rise to discriminatory prices and dumping. They should be taken into consideration for this reason.

II. THE ORGANIZATION OF FREE TRADE

a) Transitional measures

The operation of free trade (even if moderated) in the ever-widening multilateral context, where trading partners with vastly differing levels of resources and development confront each other leads to constant, sometimes abrupt, changes in relative competitiveness, trade flows and specializations.

The harsh law of the market is such that it can inflict considerable, often unacceptable, economic and social damage.

Moreover, sovereign States have preferences as regards the structure of activity according to their own particular economic and social objectives and they seek to put those preferences into practice.

But the power relationships which are being built up within the international system can bar the access of certain countries to certain lines of production.

For these obvious reasons, which are merely suggested here, it is not advisable to rely exclusively on this market law alone, which in any case is only instrumental in relation to the economic and social objectives, and it is these that must hold sway.

It is essential for any adaptations and transitions to be organized.

What is being done must, however, be clearly spelled out from the start, for there is no question of going back on the principle of free trade itself on the pretext of organizing transitions and adaptations. Too often, as well, the system of organization set up degenerates into a system of protection.

The conditions necessary to ensure that the organization of free trade remains compatible with free trade itself lie in the exceptional and necessarily transitory nature of the organizational measures. It is not sufficient, for this purpose, that the measures should be taken for a limited period when these measures can be renewed for further limited periods.

But these conditions, though necessary, are not sufficient. Organization cannot be confined to defensive or interim protective measures. In addition, or rather - above all - measures commensurate with the desired adaptation aims should also be taken.

The transitory nature of these measures can be guaranteed only if from the outset a clear definition is given of the specific objective to be attained, the whole process required to achieve it and the means to be deployed.

b) The pace of trade liberalization

In present circumstances, with strong pressure for changes in the international division of labour, trade relations with the third world countries are increasingly demanding adaptation or adjustment of industrial structures.

In other words, among all the factors of structural change, the industrialization of the third world countries and their entry into the international trade flows are now playing an increasing role, and will certainly continue to do so in the coming decades, because of the very extent of the differences in conditions of production and competitiveness among the various trading partners.

Consequently, while the success of the process of industrialization of the developing countries depends on the liberalization of access to the developed countries' markets, it depends even more on the adjustment of industrial structures in the developed countries, since maintaining these structures would necessarily jeopardize liberalization itself.

While adjustment policies are indispensable - they will be dealt with in the next chapter - they must be backed up by trade policy, which must provide temporary protection thus enabling the required adaptation measures to be taken and seek to ensure that the adaptation process does not, by its extent or concentration, give rise to unacceptable damage or social costs.

Trade policy should above all regulate the rate of liberalization and the penetration of imports according to effective capacity to adapt. This can be done only case-by-case and having regard to the particular circumstances at the time.

One can, however, immediately see the ambiguity of interim protective measures whose ultimate aim is that structures should not be preserved. Any mechanism of this kind always runs the risk of getting out of hand and degenerating into a protectionist system. Practice shows that one tends more often than not to underestimate the capacity to adapt, and as a result the adaptation is effectively reduced. There is also a tendency to stress the shorter-term costs of adaptation rather than the longer-term advantages.

The risk of the mechanism getting out of control can be avoided only under certain conditions. These have already been stated out they must be constantly repeated :

- the interim protective measures must be exceptional and at all costs of a transitory nature
- efficient adjustment policies must be introduced at the same time, for only such policies can effectively guarantee the transitory nature of the protective measures
- there must also be a parallel development of clarity or transparency as regards the choices in matters of trade and obstacles to trade in order to obtain in practice, greater consistency with the basic options (1).

But doubtless one should go further and take measures which make it possible to eliminate progressively the need to take these interim protective measures.

In the medium-term there must be a considerable improvement in the systems of information and forecasts on the development of export capacities and international trade flows so that anticipatory adjustment policies can be introduced when required. Such anticipatory policies should make interim protective measures unnecessary.

(1) A situation must be avoided where the decisions can be circumvented or the options sidetracked by socio-political pressures seeking to defend particular short-term interests.

There is doubtless a need, independently of the analysis of the markets and of projects and industrial investments in the developing countries - taking into account information relating to the sale of plant and machinery - to establish an information system for direct investments by European Community firms in the developing countries and the export capacities thus set up.

In the longer term and looking, as this report does, to the integration of trade policy in the framework of industrial and development aid policies, it is important to start a process of cooperation and concerted effort in the matter of industrial structures, leading eventually, doubtless not to a replacement but to a disciplining of the free play of market forces.

c) Commodity agreements

Pending the achievement of such cooperation, which obviously goes beyond the scope of trade policy, it is being urged more and more pressingly by some that trade cooperation should be developed in the context of Community agreements. This amounts in fact to extending to other products or groups of products agreements like the Cotton or Multifibre arrangements as a method of organizing free trade.

The Cotton and Multifibre arrangements themselves give rise to very serious reservations, because of the principle of such agreements themselves, but even more so because of the way they are applied.

Without going into a systematic analysis of these agreements, in relation to the objectives assigned to them, one can however use them by way of example to go into the conditions and limitations of such commodity agreements.

As these agreements are by definition exceptions to GATT rules, their extension would inevitably entail changes in those rules. But since a review of the rules seems to be called for anyway, it is with this in

mind that one should examine how and to what extent commodity agreements can serve as effective instruments for organizing free trade and at the same time adapting industrial structures.

The main argument put forward in support of such agreements is the need to organize free trade in order to avoid the anarchy of defensive measures taken by the various countries according to the whim of circumstances. In other words, the purpose of the organization of free trade is to save free trade, which would not survive a proliferation of unilateral restrictions.

In practice this argument obviously has something to be said for it, but it tends too easily to serve as a pretext (1), simply because it cannot be proved. There is nothing to show that, without such agreements, the liberalization of trade in textile and clothing products would not have gone as far as it has or even further (as some examples tend to indicate). Moreover, these agreements have not prevented, in particular of late, a chaotic proliferation of unilateral measures leading to serious damage in a number of developing countries (2).

Briefly, the principal objections to the Cotton and Multifibre arrangements are as follows :

- as regards their principle :

- . these agreements do not involve reciprocal undertakings with penalties attached ; whereas liberalization of trade is only a rule of principle which the developing countries are incapable of having applied, the developed countries are in a position to apply restrictive measures to combat the threat of market disruption ;

(1) In fact this is no more and no less than a form of institutionalized blackmail.

(2) "The Multifibre arrangement has turned out to be a fair weather instrument and has broken down in the situation of a world-wide depression", UNCTAD, TD/B/C.2/192, p. 24.

- . disruption, or the threat of disruption, is left entirely to the importing country to assess. The Surveillance Board set up under the Multifibre arrangement has no power of arbitration ;
- . the undertaking given to take advantage of the protective measures in order to apply adjustment policies rendering the protective measures superfluous was not accompanied by any penalty ;
- . although an element of the arrangements between the parties, the temporary nature of the arrangements was not mandatory.

In other words, these are not bilateral agreements whose application can be enforced by recourse to an independent authority (1).

Apart from these shortcomings in the way the textile agreements work, there are others which are inherent in the very essence of the commodity agreements and which we shall return to later.

- as regards their application : the application of the textile arrangements has revealed a number of tendencies which one may rightly assume to have arisen, at least in part, from the logic of such agreements :

- . the constant renewal - since 1961 - of agreements intended to be provisional ;
- . the extension of these agreements to cover increasingly wide fields of application ;
- . the absence of adjustment policies anywhere near systematic and comprehensive, despite the undertakings given ;
- . the proliferation of restrictions and exemptions (2), as well as criteria for restraint (minimal viable production, cumulative effects, penetration of the market) ;

(1) When the last Multifibre arrangement was renewed, the Protocol included at the request of the EEC went as far as getting a principle of exceptions to the provisions of the agreement accepted, in other words the non-application of the arrangement.

(2) These are, it must be remembered, exemptions at one remove, for the arrangements were themselves exceptions to GATT rules.

- . increasing bilateralization - with power relationship effects - despite the multilateral context of the principle ;
- . the institutionalization of the tendency towards cartelization among manufacturers of synthetic fibres.

Compared with these examples, any commodity agreement must, to be acceptable, comply with the following conditions :

- for instance the conditions necessary for any form of organization of free trade : measures which must be transitory and exceptional, the introduction of a system which at a fixed date does away with the need for such measures ;
- the reciprocal undertakings of the parties must be negotiated - not imposed by one of the parties - and clearly defined ; the agreement must be bilateral in nature ;
- the commodity agreement must make provision for an authority, independent of the parties involved, which is able to insist on and supervise its application (1).

But even if such conditions could be met, the commodity agreement, by its very nature, has two kinds of major shortcoming :

- the first lies in the fact that concerted trade measures cannot really have a purpose of their own (2), in relation to the basic principle of free trade, except to introduce exemptions and protection.

The numerous renewals since 1961 of the Cotton and Multifibre arrangements afford so many examples of clashes over the extent of defensive measures rather than examples of concerted efforts.

(1) Such an independent body would at the same time have the task of seeing that the agreements were applied flexibly according to changing circumstances ; for one must accept the two principles according to which no-one is obliged to do the impossible and the burden of events must be shared.

(2) Apart, of course, from the definition and application of rules relating to the regulation of free trade.

This situation can be avoided only by going beyond the commercial field and developing cooperation at the level of productive capacities and structures. Commodity agreements would be justified from this point of view only if they could serve as the springboard for concerted effort at that level. But this is far from being certain.

- The second shortcoming lies in the sectoral nature of concerted action, which is bound to accentuate the effects of the power relationships (1) and exacerbate the differences and, given the exclusively commercial context, these differences can only give rise to defensive measures, which inevitably consolidate them. The only hope of finding ways of reconciling immediate diverging interests lies in a multisectoral context, that is to say by broadening the debate so as to balance out a large number if not all of the differences. In order to avoid either coming up against insurmountable difficulties at the level of individual sectors or losing sight of the concerted effort in the excessive complexity of the problems at the overall level, the concerting of action should of course be undertaken at various levels without losing sight of the overall consistency.

These two shortcomings are therefore inherent in commodity agreements.

One can of course seek to limit these shortcomings by taking scrupulous care that the exceptional and transitory nature of the restrictive measures they involve is observed, but it may well be doubted whether the protectionist thrust of such a system can be avoided.

An attempt may also be made to remove these agreements from their commercial context in order to surpass it by establishing structures for providing information and concerting action in industry on a multisectoral basis. Rather than pleading that commodity agreements might trigger off such a process of information and cooperation, there should be a deliberate effort to establish structures, or the beginnings of structures, suited to this type of objectives.

(1) In certain respects, the sector-by-sector approach constitutes a means of preserving or consolidating existing power relationships. The same obviously is true of the bilateral approach, which enables power relationships to operate to the advantage of the developed countries.

III. THE REGULATION OF INTERNATIONAL TRADE

If, firstly, it is accepted that North-South trade relations must be able to develop freely, in the mutual and convergent interest of all the partners concerned ; if it is further accepted that the organization of trade liberalization which may prove necessary in the short term in order to avoid disruptions and permit the necessary adjustments may not be such as to call into question free trade itself, what remains, essentially, is to concentrate on rules for the proper functioning of trade ; and this involves laying down the principles and rules of fair trade.

In a sense, operating rules or regulations are all the more necessary since the liberalization of trade is making progress (1) and since the multi-lateral trade framework embraces, as active partners, countries that differ very widely in respect of their resources and levels of development, their production conditions and costs.

a) Rules or safeguard clauses to combat forms of unfair competition

The forms of unfair competition on international markets are infinitely varied and it may seem absurd to attempt to resist them or aspire to eliminate them. Doubtless the latter is impossible : in this area, more than in any other, it is necessary to face up to reality.

Nevertheless, it is essential to establish systems or procedures which permit better protection against dumping. In a sense, the liberalization of imports from the developing countries should be offset - if only for psychological reasons to assuage public opinion (2) - by stronger guarantees against dumping.

(1) Although the liberalization of trade has made scant progress in recent years, this report should be seen in a context of liberalization or at least in terms of a fight against the covert or not so covert proliferation of barriers and restrictions.

(2) But it is also necessary to prevent cases of dumping from being used as an argument against the liberalization of trade.

Certain forms of unfair competition call for particular attention in the present circumstances :

- there is the state-trading system of the Eastern-bloc countries : the prices of their exports on the markets of the developed countries are lower than those of the developing countries. In all probability dumping is taking place, encouraged to some extent by compensation systems, but it cannot be described as dumping in the market economy sense
- there are systems of exemption from social charges or taxes, within the framework of investment codes but more particularly in the institutional context of free zones and systems of offshore processing or assembly operations
- lastly, there is competition which is often described as unfair, resulting from the fact that wage costs or labour costs per unit of production in the developing countries are considered to be excessively, nay abnormally low : what is excessive - by comparison of course with the norm in the developed countries - is considered to be unfair
- to these three examples must be added cases of straightforward dumping, which some observers consider to be on the increase on the international scene, as a result of the very extent of international trade, the diversity of products and above all of origin.

Since the forms of unfair competition are clearly many and varied they cannot all be dealt with in the same way.

In particular, two groups of problems must be considered separately :

- the first concerns everything relating to pay and working conditions which are the subject of the next section

- the second group concerns all forms of state aid. It would be not only unrealistic but also illogical - if it is acknowledged that economic and social objectives must be attained inter alia through measures affecting economic structures - to deny any state aid for industrial activity.

It is also necessary, however, to specify the limits within which state aid can be accepted as not being totally incompatible with the normal operation of markets (1). Such aid can be justified only to the extent that it falls strictly within the organization of free trade. To go beyond exceptional, transitional measures - the extent and duration of the aids being normally dependent on the degree of industrial competence attained by the country of origin (2) - is to call the normal operation of trade into question. Importing countries should therefore have the right to insist on the production of evidence that aid measures form part of an organization programme.

If such evidence is not forthcoming, then one is up against a routine case of dumping. This applies to all cases where firms, with or without aid from their government, sell - occasionally or otherwise - at prices appreciably lower than those required to cover normal effective costs (3), with due account, however, for the ambiguity and the arbitrary element involved in defining and measuring such costs.

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- (1) Only export aids are considered here, but obviously aid can also be given in order to strengthen competitiveness in relation to potential imports. The same reasoning should apply in that case too.
 - (2) This too is one aspect of the selectivity that needs to be introduced into the organization of reciprocal relations with the developing countries : measures to aid certain exporting industries can be accepted for a certain period in the case of countries with little or no industry, but would be inadmissible in the case of countries undergoing rapid industrialization.
 - (3) It does not matter how such firms manage : there is always someone who has to pay.

Dumping can in some cases cause significant injury and it can scarcely be argued that such injury, which may go as far to disrupt the market, should be accepted.

More guarantees are needed against dumping, but at the same time the countries of origin must be given a guarantee that safeguard clauses will not be invoked against them arbitrarily. Obviously this is possible only if objective criteria are laid down for the assessment of cases of dumping and if a body which is independent of the parties concerned is set up for deciding such cases. The application of the rules here should be backed up by sanctions. As for the procedure, it should be possible to simplify it by shifting, in whole or in part, the burden of proof.

Rules and procedures which would provide greater guarantees while being less cumbersome should therefore be studied. This would appear to be possible if the rules were based on the following two principles :

- the importing country should be able to take protective measures against dumping where dumping is presumed to be taking place, such presumption being established only on the basis of a number of simple criteria and being subject to assessment by an independent authority
- where such presumption is established, the country of origin would be obliged to offer proof of the normal character of its conditions of sale.

b) Working conditions and pay

There is one form of competition to which public opinion, and above all trade union organizations, are particularly sensitive, namely any form of excessive competition in which low production costs and prices are linked to instances of unacceptable exploitation of labour, which is forced to accept working conditions and pay that do not conform to certain minimum standards.

That such unacceptable conditions of exploitation exist is beyond doubt, even though there may be disagreement over the actual extent of such practices. What would appear to be less clear, however, is the part played by such practices in the export competitiveness of the firms or countries concerned, and also the question of what the appropriate reaction to such practices should be.

The first question therefore concerns the impact of such working conditions and pay on costs and prices. It is necessary to discover whether it is not only a question of regrettable or unacceptable practices but of actual dumping, which would be the case if the relative competitiveness of the countries concerned was significantly dependent on the practices in question.

In practice this would not appear to be the case. Compliance with minimum standards would not appreciably affect these countries' levels of relative competitiveness vis-à-vis that of the developed countries (1). Their competitiveness is based above all on very low wage levels, coupled with productivity rates which are far less low compared with levels in the developed countries. However, any attempt to equate low wage levels with non-compliance with minimum standards must be categorically rejected (2).

Although the exploitation of labour through poor working conditions and low pay cannot be equated with dumping and treated accordingly, it remains to be decided what the appropriate reaction to such practices of exploitation should be. Should trade arrangements be linked to compliance with minimum standards of pay and working conditions, or not ?

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- (1) This is, moreover, a major argument in support of the view that such countries should be forced to comply with minimum standards.
 - (2) Any suggestion that protection be sought against low wage competition - which would introduce a type of inverted selectivity, since the lower the wages, the higher the degree of protection - or that demands be made for the raising of wages in line with productivity levels, must be categorically rejected. Quite apart from the fact that this would create intolerable wage disparities within the countries concerned, its effect would of course be to neutralize the only comparative advantages that the countries in question possess.

The arguments "against" concern :

- the standards themselves :

How can acceptable standards be defined ? Is it legitimate to attempt to impose standards corresponding to social practice in the developed countries ? Is there not a risk of interfering with certain fundamental strategic options which fall firmly within the ambit of the sovereignty of the countries in question ?

In particular, how would compliance with such norms be verified or guaranteed (1) ? Above all, how would it be possible to prevent their impact from being affected by other forms of exploitation ?

If a very narrow definition of minimum standards is adopted, the impact will tend to be zero ; if a broad definition is adopted, there is a danger that the system will not work effectively.

- underlying protectionist reactions. While it is true that the practices in question have little influence on competitiveness, the desire to react by means of restrictive trade measures suggests that the reactions involved are, at least in part, of a protectionist kind. Here again there is a danger of confusing different categories of problems.

Nevertheless, it would appear that, provided these reservations are taken into account, considerations relating to working conditions and pay could and should be introduced into the definition of reciprocal trade relations.

This would appear to be necessary if the liberalization of imports from the developing countries is to be made acceptable to public opinion. However, such acceptability cannot be based solely on working conditions and pay in the developing countries. Three other conditions must be met at the same time. First, an information system must be established to

(1) Various practices in the developing countries hardly inspire optimism regarding such a system.

provide public opinion with the facts as regards actual practices and wage levels. In addition, steps must be taken to ensure that consumers as such may enjoy low prices. Lastly, firms from the Member States which establish and operate production units in the developing countries must be obliged to comply with minimum working standards.

The introduction of considerations relating to working conditions and pay would also appear to be possible in practice.

This should not, however, be based on an approach in terms of the regulation of trade, but should be set in the context of improving reciprocal relations.

Consequently any procedure in which trade advantages are as it were "bought" by compliance with certain minimum standards should be avoided.

Apart from the obvious usefulness of campaigns aimed, by means of political pressures where appropriate, at convincing the countries in question of the necessity, in their own interest, of complying with minimum standards, such compliance with certain conditions should concern trade only in the context defined above in connection with selectivity. Development objectives, including the improvement of working conditions, should be integrated in the concerted definition and ordering of reciprocal relations.

c) Commercial policy as regards exports

Commercial policy has usually been thought of as a protective device used to regulate the flow of imports but little, if at all, concerned with exports.

One commercial policy begins to be seen no longer as a means of controlling trade flow, but of regulating mutual relations with trading partners, then it ought to cover exports as well.

The need to take account of exports is also conditioned by the interdependence existing between certain export flows and certain return flows. This interdependence is particularly marked in the framework of compensation systems, but there are other instances, some of which are quantitatively more important (c.g. exports of raw materials at dumping prices which are re-imported after processing).

Here there are a number of problems which, although they are only dealt with in outline, are deserving of greater attention than they usually receive. The most important of these appear to be (1) :

- restrictive practices,
- unfair competition,
- export credits,
- transfer of technology.

Let us briefly take a look at these four types of problems.

UNCTAD has done a great deal to draw attention to restrictive practices in international trade. The barest propriety dictates that the industrialized countries should not tolerate practices in their relations with others that they would eschew on their home markets.

All these practices are concerned in one way or another with the conditions of access and/or pricing of member countries' products on third world markets.

Except where special circumstances exist (e.g. measures to prevent nuclear proliferation) all restrictions on access to available products and services on the same terms as those usually offered on the home market should be banned on principle. All restrictions on sales apart from

(1) Further problems could probably be added to this list, in particular problems relating to exchange and capital movements, and, if the scope of the debate is widened, those relating to the directions taken by R&D programmes which could affect relative competitiveness in North-South relations.

distorting competition, would also be totally incompatible with cooperation policy, which is precisely aimed at making up for existing handicaps.

The problem of restrictive practices could be fatal to North-South relations in the technology field. We shall return to this matter later.

Commercial policy should, however, also be concerned specifically with matters relating to export prices and refuse to countenance as a necessary evil practices leading to monopolistic prices and revenue, which aggravate the deterioration in the developing countries' terms of trade.

This phenomenon is particularly marked in relation to capital goods and results in an artificial inflation of investment in countries with limited financial capacities.

In contrast to those who advocate stepping up exports at all costs - to pay for oil imports - it must be emphasized that exports to the developing countries are limited by those countries' capacity to import, and any increase in prices cuts back on volume by a corresponding amount, restricting activity and jobs in the export sector.

The second type of problem is concerned with unfair competition.

While it seems desirable, as stated above, to make the anti-dumping rules more operational, this implies in return that commercial policy should penalize the competition-distorting or dumping practices engaged in by Member State firms.

Greater transparency in this field would doubtless make it possible to put into perspective the accusations levelled, often somewhat lightly, at the countries that penetrate our markets. But, surely the most obvious

point is that it will be difficult to convince our partners of the need for stricter regulations if firms in the Member States do not consider themselves bound by those regulations.

The third type of problem is concerned with export credits. There are two types of reason militating in favour of the introduction of more restrictive principles and rules governing the grant of export credits. The first is based on the fact that these are a form of tied aid, which generally has the effect of influencing the allocation of resources. In practice, export credits have a particular effect on technological choices. The second type of reason has to do with the fundamental ambiguity of export credits, since it is not clear whether it is the exporters or the importers who are really being helped by them (1). The fact that export credit is an instrument in competition between developed countries is borne out by the fact that there are problems between them in connection with the differentiated terms of the credits that they grant.

Perhaps it is somewhat unrealistic to try and counter a strong trend in international trade and in particular to suggest a policy which may well not be followed by the other developed countries.

However, this does not seem to be a sufficient reason for not trying on the one hand to obtain a clearer understanding and measurement of the effects of export credits and on the other hand to consider forms and rules that would make it possible, if not to restrict export credits, at least to ensure that they are compatible with the objectives of industrial and development aid policies.

(1) Unless, for the sake of a clear conscience, we content ourselves, somewhat facilely it must be admitted, with the hypothesis that the beneficial effects are shared both by importers and exporters alike.

The major plank of any such policy must clearly be to dissociate the credit from the capital goods as such and to link it to the actual industrial project so as to redress the balance between the question of finance, which is at present too much the determining factor, and the problems of the economic choices involved.

The last type of problem is concerned with transfers of technology.

The various aspects of this problem have already been indicated, but, given the strategic role that technology must play in many respects, it is important to draw particular attention to :

- the problems of access to technology : any system where technology is withheld must be prevented ;
- problems regarding the terms and arrangements of the transfer :
within the framework of the commercial policy, it is necessary to combat restrictive practices by seeking to ensure a certain minimum application of the codes of conduct ;
- the problems of technological choices : steps should be taken to counteract the complex system of factors that tend to influence the choices and introduce in its place conditions that can make them fit in more closely with the development objectives of the host countries.

IV. FUTURE OF THE "REGIONAL" APPROACH TO ECONOMIC RELATIONS WITH LDCs (1)

The Community's commercial and development policies towards ldc's are highly complex; partly by design, partly by accident of history. The basic problem in rationalising the various policies has been to contrive a balance between global relations with ldc's on a general criteria, and "regional" obligations to specific groups of ldc's.

The global elements in Community policy have been its GSP, the use of mfn for tropical products, and attempts to define a common position in an UNCTAD context. A "regional" element has several ingredients :

- i) ACP; "regional" only in the partial sense of having "black Africa" as its core. Covers preferential market access, aid (EDF) and commodity stabilisation (STABEX)
- ii) Mediterranean basin;
 - a) S. Mediterranean; preferential trade agreements and aid for Maghreb (Algeria, Morocco, Tunisia) Masreq (Egypt, Syria, Jordan) Lebanon and Israel
 - b) preferential trade agreements with Malta and Cyprus
 - c) "candidate" members, Greece, Portugal and Spain
 - d) Turkey; Association agreement
 - e) Yugoslavia; presently under GSP.

Through scarcely "regional" in any meaningful sense there are the non-preferential trade agreements for example with Brazil and Argentina (both eligible for GSP), various "commercial" or "industrial" cooperation agreements (as with the South Asian countries and Mexico) and informal consultation with the ASEAN and Andean groups.

(1) By V. Cable.

a) Economic Pro's and Cons of the EEC "regional" policy

Apart from political kudos what else has the EEC gained or lost from its "regional" policy ? The basic theory of customs unions, developed by Viner and others, encouraged a view, which trade policy makers always find a little hard to appreciate, that gains arise from competition, resulting in a movement of goods from high cost to low cost locations, -"trade creation"- In this way the allocation of resources is improved resulting in real income gains which are likely to benefit the importing country through lower prices. This had to be set against trade "diversion", when due to the external tariff trade is switched from lower cost sources outside the area to higher cost producers within. Of course this view of the world is much simplified, is essentially static in character and ignores the social costs to an importing country, particularly in regions or periods of high unemployment, as factors of production are displaced. So it cannot be applied mechanically to indicate gain and loss. But the concepts of trade "creation" and trade "diversion" are not without analytical importance and do suggest at least one source of cost and benefit. One of the implications of this type of analysis is the prediction that gains will be realised from economic groupings that are competitive in character (i.e. producing the same kinds of products but at different costs, as in the EEC itself) and that there is least prospect of gain from a preferential "complementary" relationship (as between a group of developing economies) since it is likely to divert trade mainly from other developing countries, to their cost and the cost of developed country consumers.

It is in practice extremely difficult to separate out, ex-post, what the effects of preferential groups have been, and in any event the Mediterranean and Lome agreements are too new even to contemplate such an exercise. Market shares change for a multitude of reasons of which preferences are but one. But such work has been done, for example on Yaoundé and Commonwealth preference indicates that preferential arrangements, especially

when supplemented by marketing and monetary connections, do influence trade flows considerably but almost entirely in the direction of trade diversion (1).

1) Trade creation and trade adjustment

Although in a static terms one could expect little competing trade from Lomé and North African countries, in the longer term the existence of free market access for manufactures and agriculture on better terms than GSP will stimulate additional trade.

i) manufactures : at present there is little competing trade.

The South Mediterranean supplies 1.5 % of the EEC-9's manufactured imports (1.0 % in 1970) and ACPs 0.7 % (0.6 % in 1970). The Mediterranean basin, as a whole, supplies 10 %, largely from the three candidate members.

However it does not require a great deal of foresight to be able to predict, on the basis of present trends and existing installed capacity, a growth of imports in the following product areas.

- petrochemical products, from Algeria, Nigeria and Masreq
- textiles (Egypt), and clothing generally (Egypt, Morocco, Tunisia, Ivory Coast)
- processed raw materials and foodstuffs; plywood/furniture, tinned fruit (but problems of sugar content), oil seed crushing
- labour intensive assembly industries e.g. electronic components (Lebanon).

(1) e.g. C. Young, Association with the EEC, Journal of Common Market Studies, December 1970.

D. Wall, The Commonwealth Preference System and its Effects on the UK Imports from Latin America, Journal of Development Studies, January 1971.

Most of these areas are already "sensitive" items under GSP and are covered by temporary tariff quotas under Mediterranean agreements, and NTBs (the MFA for textiles). Yet they are product areas where the less developed ldc's have a comparative advantage in labour and/or resource costs. If this comparative advantage materialises in substantial trade flows the EEC will have a variety of difficult options :

- to permit import growth ; which will involve increasing problems with EEC producer lobbies notably in textiles/clothing, and also accusations of "double dealing" by other ldc's which are more restricted
- protection ; probably by utilising existing safeguard clauses, which, under Lomé, permits, after consultation, the EEC to "prohibit" or "restrict" entry or any other "necessary measures" when confronted by "serious disturbance", "deterioration" or "financial instability" in a sector or sectors of the European economy. The MFA already covers Maghreb and Masreq textiles and will probably eventually be extended to the ACPs. Needless to say, the increasing use of trade protection devices against actual use of the Lomé and Mediterranean market access provisions would make a mockery of the spirit of the agreements. Within days of signing the Masreq agreement with Egypt, unilateral - not MFA - restrictions were imposed on its textiles by the EEC
- reciprocity ; the Community might find it easier to swallow increasing import competition if it could demonstrate reciprocal benefits in trade or other areas. It already does gain reciprocally to the extent that ACP/Mediterranean countries spend their incremental foreign exchange earnings on mainly European goods, which, given the traditional commercial links, they already do. EEC exports have in fact gained much more rapidly than imports over the 1970-75 period (with Lomé, 17.5 % v. 12.2 % including oil and a similar differential for the Mediterranean (South) and as a whole. The Community is on weak ground generally in demanding formal reciprocity with the ACPs and Mediterranean preference area : It runs a large trade surplus with the latter, more or less balances with Lomé and, with both runs a massive surplus on manufactures.

ii) agriculture : the problems with agriculture are less remote and more sensitive, especially on Mediterranean trade. Concessions have been made notably on fruit, wine and olive oil, albeit within the general framework of CAP, and with little encroachment on variable levy items. There are two basic problems :

- how (or if) to give added substance to the existing agreements by extending access on agricultural items
- how to reconcile the competing interests of potential members (Greece, Spain, Portugal) with other Mediterranean producers.

The first issue is difficult since there is increasing militancy amongst farmers over the alleged neglect of Mediterranean products by the CAP. One way of meeting their demands (probably the worst, but politically the easiest to grant) would be to extend guaranteed price support and levy operations on a bigger scale to cover fruit and vegetables, olive oil, wine, tobacco (possibly). One of the main targets would be North African competition. Unfortunately for the European farmers the EEC has since 1970, moved from substantial deficit to substantial surplus on agricultural trade with the Southern Mediterranean. It seems unlikely that there can be meaningful relaxation for the main levy products (though these are of no real interest to ldc's except for Botswana) and sugar. Given the present character of the CAP it is difficult to see what general advance can be made in trade terms. Progress, but only a very limited kind, can be made encouraging the Mediterraneans to develop a complementary trade pattern by means of non-competing products (dates, mangoes) or seasonal supply (tomatoes, grapes, peppers).

The potential conflicts of interest would intensify with EEC enlargement since a partial way out of the difficulties presented by the new members for European agriculture is to squeeze third country suppliers. This particularly affects citrus fruit (Morocco and Israel v. Spain and Greece), wine (Algeria v. all three) olive oil (Tunisia v. Spain). But given the current balance on EEC agricultural trade with the Southern Mediterranean there is not much room for manoeuvre.

2) Trade Diversion and Discrimination

Another set of difficulties is presented by preferential zones to the extent that when the Community wishes to reduce access barriers multilaterally, high cost producers in ACPs and the Mediterranean are threatened. This applies in two types of situation :

i) "pure trade" diversion occurs when the preference is for products not produced in Europe. For example ACP producers enjoy tariff margin advantages on palm oil, cocoa, coffee and bananas and non tariff discriminations for bananas. Studies recently carried out at Antwerp indicated good grounds for believing that trade diversion was occurring in the first two cases at least. ACPs are likely to seek to hang on to these preferences in the face of efforts by (as in the 1976 the Community tropical products offer under the Tokyo Round) to liberalise multilaterally or through GSP.

ii) Trade diversion also occurs where protective tariff concessions are distributed unequally, as for example when GSP beneficiaries compete with Lomé producers under the handicap of tariff quotas. In practice however ldc preference areas may well benefit most at the expense of developed country competition (as intended). Thus the \$ 900 m of dutiable exports to the EEC covered by the Maghreb trade agreement (1974) compared directly with \$ 20 bn of exports to the EEC from mfn sources, \$ 17 bn from EFTA and the Mediterranean producers and only \$ 3 bn from GSP sources. \$ 3 bn of ACP exports to the EEC benefitting from preference competed with \$ 3 bn from GSP sources, \$ 18 bn mfn and \$ 11 bn from other preference areas. Whatever the source of competition preference areas create a vested interest in opposition to preference sharing, and a good deal of resentment over differential treatment (e.g. haggle over different duties on oranges).

From a developmental point of view some kind of assessment needs to be made as to whether the net effect of this cross-discrimination favours or disfavour the poorer countries. In general ACPs have a much lower average per capita income than GSP beneficiaries (which include inter alia, all the OPEC states, Hong-Kong, Singapore, Yugoslavia, Argentina) and to this

extent trade discrimination in their favour is redistributive (though there are several Lomé countries with a per capita income over \$ 1000 per capita; e.g. Jamaica, Trinidad, Gabon). The Mediterranean preference zone is at a higher level of per capita income through the richest countries (Israel, Cyprus, Malta, Lebanon, and of course the membership candidates) are expected to offer greater reciprocity. The most glaring anomaly produced by these arrangements is the limitation to GSP terms of the four South Asian countries which have a per capita income less than \$ 200. They have been accommodated by means of a frankly vacuous set of industrial cooperation agreements as well as more useful but limited GSP concessions on products of interest to them. In practice their footwear, textiles, tobacco, etc. compete on inferior trade terms with, often, richer ACP and Mediterranean producers.

b) Basic Scenarios

The Community has reached rather a messy stage in its regional preference policy, when generous access terms are likely soon to start generating trade flows which create adjustment problems for European producers, and when the discrimination between various groups of ldc's becomes an increasing bone of contention in the absence of further concessions. There are various possible approaches :

i) regional "deepening" : the Community could seek to deepen the content of its regional commitments. But there is little more it can offer in trade terms without breaking into the inner citadel of the CAP or the hitherto non-negotiable NTBs such as excise duties on tropical products. It will moreover be under increasing pressure to retract what it has already given away (Mediterranean agriculture; Lomé textiles). It could compensate by giving more aid to ACP/Mediterranean countries but the EDF is already committed fully in these areas and national governments are unlikely to want to surrender an increasing share of their own aid budgets to this end.

ii) widening : a good many of the anomalies produced by the regional approach could be eased by extending the trade benefits to a rather small number of ldc's of low per capita income, essentially the South Asians. The long-term prospect of Indian competition frightens some Europeans but, realistically, it is difficult to see why within the foreseeable future it should present greater problems than some of the countries in the Mediterranean basin. At present \$ 800 m approximately (roughly one half) of South Asian exports to the EEC could benefit from duty reductions, a small amount in relation to total trade. There would also be resistance from existing preference beneficiaries, and it would remove what remains of any geographical basis to Lomé. Prospects seem remote.

iii) global approach : there has always been within the Community a strong view that minority preferential zones are undesirable because

- they undermine the multilateral approach of GATT
- they prevent a rational and consistent approach to ldc's as a whole
- they are greatly administration-intensive.

The difficulty with "globalism" as it affects ldc trade is that it is not clear whether it could involve "levelling up" (to Lomé terms) or "levelling down" (to GSP or mfn terms). Various global approaches are currently being considered with degrees of preference and reciprocity based on per capita income and not geographical accident. The problems with such reforms is that they may create more problems than they solve e.g.

- per capita income is an arbitrary and often unsatisfactorily indicator for deciding the eligibility of preferential trade benefits for a large group of countries; but
- attempts to graduate benefits by income or to introduce other indicators or to classify at product level could make the whole exercise unmanageably complex, which would itself constitute a major barrier to trade.

A radical new departure in this direction seems improbable. A more gradual approach seems more appropriate and feasible involving a widening of existing preferential terms, through GSP (tariff quota removal; agricultural list) or mfn, and improved aid to a wider range of countries with a reasonable claim on developmental grounds for special consideration.

iv) protectionism : the Community may wish to retract its earlier commitments in terms of trade. There seems some evidence that it does. One might therefore consider whether, in this eventuality, it makes most sense (or least nonsense), from political/developmental/commercial considerations to seek to spread the costs of such a policy widely or to seek to retain discrimination in favour of its preference areas.

CHAPTER II - TRADE AND ADJUSTMENT POLICIES (1)

I. ADJUSTMENT INSTEAD OF PROTECTION : THE RATIONALE

a) Structural and Cyclical Changes

Pressures are now building up in a number of member countries of the European Community to resist further steps towards trade liberalization with the developing countries and to install, at least in the case of a certain number of "sensitive" items, restrictions on the imports from such countries. Advocacy of protectionist measures against low-cost imports is an almost instinctive reaction in times of recessions such as the present one from which the developed, market economy world is only slowly recovering. It is of course, true that in times of cyclical crises, both healthy and weak industries come under varying degrees of pressure. But the accentuation of the persistent mutation pressures faced by structurally weak industries is different from the temporary cyclical difficulties which most of the units in an economy encounter periodically. Attempts to ward off the former with restrictions against low cost imports from the developing countries are bound to be futile because the factors contributing to the structural adjustment process are broader than the increase in such imports.

b) The Process of Structural Adjustment

Structural adjustment, defined as the process by which the factors of production tend to shift from sectors which are stagnant or declining due to fundamental reasons, to sectors with sustainable prospects, is a persistent, but not necessarily smooth phenomenon.

(1) By P.K.M. Tharakan (except for section III. c)).

The factors contributing to this process are varied and consist of a number of elements such as the rapidity of technological change, diffusion of consumption patterns, increasing interpenetration of markets through capital movements, formation of regional groupings such as the European Common Market and the liberalization of trade (1). Even in cases where the imports from the developing countries are an important factor, some of the other elements (particularly technological change) operate in an interlinked manner and tend to impart a cumulative impact on the inter-industry shifts of the factors of production (2). Given the apparent futility of protectionist measures to safeguard the interests of the workers and entrepreneurs in the structurally weak sectors, the crucial policy question is one of developing and implementing effective adjustment policy instruments which can smoothen the process of structural change and minimise the socio-economic costs which the process might entail to particular socio-economic groups in the society. Stated in more positive terms, a more open policy in the Community's trade with the developing countries, if combined with appropriate adjustment policy measures, can not only be of some help to the developing countries, but also encourage a better allocation of resources within the Community.

II. INSTRUMENTS OF STATIC (REMEDIAL) ADJUSTMENT POLICY

a) Policy Instruments in General

Given the broad nature of the adjustment process described above, it is normal that general economic, social and regional legislation might have also incidence on the adjustment process. Adjustment policies themselves could be divided into labour market policies and adjustment assistance to firms. The labour market policies usually include unemployment benefit programmes, removal and transfer allowances, early retirement provisions, etc. The adjustment assistance to firms usually consists of financial

(1) See OECD, Notes on Some Aspects of Industrial Adjustment Policies in the Present Economic Context, Paris 1974 (mimeographed).

(2) The experience of the European jute industry during the last twenty years or so is an example of this.

and fiscal assistance including grants, investment subsidies and low interest loans, various tax concessions, liberal depreciation allowances, etc. All these policies could effectively serve as adjustment policies for a new international division of labour, provided they are linked to the liberalization of the trade with the developing world.

b) Some Examples of Trade-oriented Adjustment Policies in Selected Countries

There have been some efforts in various industrialised countries to develop a link between the trade policy and the structural adjustment assistance policy. The Trade Expansion Act (TEA) of 1962 and the Automotive Products Trade Act (APTA) of 1965 of the US and the Canadian law of 1971 which created the Textile and Confection Board and Anti-Dumping Tribunal are examples of such links, although they were not directly (or positively) related to the trade with the developing countries. But Japan's Provisional Measures for Smaller Enterprises which were introduced as a result of the implementation of the General Tariff Preferences in 1971 and the Dutch Memorandum on Restructuring of the Netherlands Economy and Development Cooperation (1974 and 1975-76) are among the precedents for a link between adjustment policy and the liberalization of the trade with the developing countries.

c) European Integration and Structural Adjustment Policies : Provisions and Precedents

The European Community has itself instituted policies to ease the process of structural change in the member countries, which was accelerated due to the regional division of labour resulting from the increasingly free movement of the factors of production and goods within the Common Market. At the setting up of the European Coal and Steel Community (ECSC), the Treaty of Paris authorised (through Articles 56 of the Treaty and section 23 of the transitional dispositions annexed to the Treaty) the High Authority to furnish aid to miners and steel workers who would become redundant. Such aid was to be used to compensate partly for the employment

loss, professional re-education and geographic displacement of the workers. The same article also provided for the creation of employment in different regions which are severely affected by economic perturbations due to economic integration. Article 54 of the Treaty of Paris authorised the High Authority to help in the financing of the projects of investments in the coal-mining and metallurgy and projects related to the construction of lodgings for workers. All the above-mentioned provisions have been made substantial use of, in the efforts to ease the rapid structural adjustment that has taken place in the industries concerned.

Further, article 123 of the Treaty of Rome which set up the European Social Fund authorised measures necessary to guarantee employment and protect the revenue of the salaried persons from the risks arising from the integration of the national economies. It was also authorized to undertake measures to promote employment, particularly by preventing structural unemployment. The decision of the Council of Ministers, dated February 1st 1971, modified the rules of the Fund to assure, through subsidies of the Community, help in bringing about a better adaptation of the offer and demand for employment in the member countries. It also authorised the Fund to apply complementary measures which would permit it to intervene in an anticipatory manner when the transfer of labour is foreseen.

Thus the precedent for initiating, at the Community level, adjustment policies to facilitate structural changes due to increased regional division of labour is well established. What is required now is to extend such an approach to the changes resulting from the increasing participation of the Community, in the new international division of labour.

d) A Possible Link between Trade Liberalization and Adjustment Assistance Policies

The European Community's implementation of the GSP, as well as the trade provisions of the preferential agreements, contained an "escape clause" mechanism, but there exists no link between the invocation of that

mechanism and the process of structural adjustment. We propose that in the forthcoming review and renewal of the GSP, a duly constituted Authority should be empowered to decide - as was done under the Trade Expansion Act in the United States - whether adjustment assistance should not be provided as an alternative to escape clause relief for workers and firms injured or threatened to be injured due to the application of the GSP or other preferential regimes. The objective is to make sure that the "ceilings" and "escape clause provisions" would serve the original reason for which they were intended - namely, to provide temporary respite in order to undertake the necessary restructuring - rather than becoming permanent restrictive measures which succeed only in providing justifications for other countries (developed or developing) to resort to protective measures for their own weak sectors.

III. TOWARDS AN ANTICIPATORY ADJUSTMENT POLICY

a) Elements of an Early Warning System

The above-mentioned approach is still a static one in the sense that the industries requiring resort to "escape clauses" and quantitative restrictions are already in considerable difficulties. The crux of the matter is one of developing anticipatory adjustment assistance policies so that the impending structural weaknesses of specific branches of industries can be foreseen and the necessary adjustment measures prescribed. The starting point of the activation of such a policy is the compilation of the current industrial profile of the comparative advantages and disadvantages of the member countries by identifying the industries and branches of industries for which there are structural weaknesses or growth potential. At least part of the information required for this purpose is already available in the case of most of the member countries from research carried out either by official or independent agencies. It is also possible to obtain, in a rather "ad hoc" manner, an initial list of the products which fall into the category of potentially weak sectors, from the category of "semi-sensitive" items in the GSP.

The second step in the process would be the setting up of an "Early Warning System" with the purpose of monitoring, in a systematic way a certain number of important indicators. The most important of these elements are :

- a) the imports of products from low cost countries as a percentage of the production or consumption in the importing country,
- b) a similar check on the exports as a percentage of domestic production,
- c) actual or projected levels of unemployment by branches of activities,
- d) levels of protection, particularly effective levels of protection and non-tariff restrictions,
- e) level and frequency of the subsidies requested or obtained from public agencies,
- f) significant changes in the technology which changes the factor intensity of a given production process,
- g) important changes or expected changes in the prices and/or supply of the necessary raw materials,
- h) levels of investments - particularly foreign investments - in the relevant export oriented branches in low cost countries,
- i) expiry of patents, increased specification of production standards and the export of specific technology.

The operational part of the system would consist of monitoring, at short term intervals such as six months, the pattern of the evolution of these indicators for the industries and branches being covered. Such systematic monitoring should provide ample warning about the impending weaknesses of particular branches. Such information, in addition to being made available to the firms and the organisations of the workers directly concerned, could become the basis for the decision by the authority proposed to be set up, as to whether the branch of the industry concerned should receive "escape clause relief" or adjustment assistance instead.

b) A "Second Window" : Adjustment and the Satisfaction of Social Needs

In general, the view has been often expressed by the socio-economic groups directly concerned, that if restructuring has to be undertaken in a particular branch in an industry, it has to be done in such a way that the labourers who become redundant should be fully absorbed in another branch of the same industry. It is of course, possible that viable and non-viable branches might exist side by side in the same industry. And if the expansion of the viable branch could absorb all or most of the labour released from the non-viable branch, it would considerably facilitate the adjustment process. But it will not always be the case. The branches of activities which have growth potential in the industrialised countries are often more capital intensive than the branches which are phased out. Constant increase in productivity also implies a steady reduction in the labour input per unit of output. Some of the employment lost will be of course made up of, by the multiplier effects generated by the expansion of the adjusted sectors. But the general impression remains that on the balance, the employment created by the growth sectors will not be able to solve, in the short term, the structural unemployment problems being faced by a number of industrialised countries.

This perspective lends added weight to the occasionally mooted proposal that a serious effort has to be organised in the industrialised countries to identify and undertake the measures necessary to meet, the unfulfilled "social needs" and that this process could also provide alternative and worthwhile avenues for the utilisation of redundant manpower. The well-known critiques against such an approach are as follows : the "social sector" is already overdeveloped in a number of European countries; further efforts in this direction would be an additional drain on the already over-burdened public expenditures; productivity in the social sector is low; and finally, there is the problem that unemployed labour, untrained in the work in the social sector, cannot be directly redeployed for such tasks.

It is indeed true that certain branches of the social sector are already well developed in some of the member countries of the European Community. But there is a persistent impression that a number of unfulfilled social demands, particularly in the spheres of urban renewal, welfare of older people and minorities, tend to co-exist with the above-mentioned advancements. That is why their precise identification is mentioned as one of the first steps. The costs involved in meeting these requirements are certainly not negligible; but a persistent backlog of unemployed would be an even greater burden on the treasury. A similar line of reasoning would also apply to the objections about the low level of productivity in the social sector. Finally, provisions for the training required for working effectively in the social needs sector should be an integral part of any such programme.

The investments required to meet the properly identified social needs are programmable and thus "anticipatory" as far as employment creation is concerned. It could possibly be organised within the institutional framework of the European Social Fund and become a "second window" in the implementation of an anticipatory adjustment assistance policy.

c) A "Third Window" : Adjustment and Regional Policy (1)

To facilitate the necessary structural changes within less developed regions of the Community that type of regional policy seems to yield highest rewards which is designed to remove bottlenecks in these regions' ability to adapt. For such a strategy to be adopted changes in regional policies as presently pursued are indicated :

(1) Part III.3. of this chapter, by Frank Wolter.

- 1) Regional policy may aim at directly inducing changes of regional production structures. For such a sectoral approach, activities endangered by import competition from developing countries could be systematically exempted from regional aid. The list of sensitive or semi-sensitive products of the GSP-scheme can provide first best candidates. On the other hand, regional aid may favour investment in activities which are tradable interregionally, but hardly internationally because of prohibitive transport or communication costs, and, hence, scarcely exposed to import competition from developing countries. A number of service activities may be cases in point (short-period tourism, conference sites, mail order trade among others). Incentives to attract service activities seems to be the more adequate because many of these activities provide employment opportunities for low-skilled labour, particularly female workers, while benefitting from an income-elastic demand. The disadvantage of such a sectoral approach appears to be that it is discretionary by nature and subject to severe information problems which may be solved at less cost by the trial and error process of the market.

- 2) Alternatively, regional policy may concentrate on encouraging the employment of relatively scarce production factors. As in less developed regions the supply of skilled labour seems to be the relevant bottleneck, the prevailing subsidies for (physical) capital in regional aid schemes may be changed into systematic subsidies for human capital. Incentives for additional employment of skilled labour in less developed regions could be financed by disincentives for additional employment of respective labour in agglomeration centres. This can be effected by taxing the increases in rewards for human capital in agglomeration centres and correspondingly subsidizing increases in rewards for human capital in the periphery. The tax could be levied (and the subsidies could be granted) on incremental changes in the difference between actual wages and salaries and fictive wages and salaries given by the hourly wage for an unskilled worker multiplied with the additional

employment hours. In addition, regional policy could take into account backward regions' generally richer endowment with "environment" as a production factor by regionally differentiating environmental protection policies more.

- 3) Mobility of capital and, above all, skilled labour from agglomeration centres to the periphery can be further raised by systematically strengthening the less developed regions' infrastructure. Here, among others the regional dispersion of education facilities and universities may play an important role as it is likely to attract complementary economic activities. In addition, public administration can be decentralized and public participation in private business may be usefully employed to create new regional growth centres.
- 4) In any event, regional aid schemes should be streamlined. In recent times, regional aid has very much proliferated both in terms of measures adopted and of area covered. Partly, regional aid seems to have become a hidden substitute for the removal of intra-EC trade barriers. The readoption of a more transparent system and the concentration on marginal cases will ensure regional aid to become more efficient by directing it more towards those who really need it.

Regional aid, as any public incentive system, has opportunity costs. Hence, when planning the regional development budget both the real economies of agglomeration and the options for aid among regions have to be properly taken into account. For, not a maximal but an optimal spatial dispersion of economic activities is needed. This is to say that there are cases where the development potential of individual regions is not high enough to justify active rehabilitation. The protectionistic defense of economic activities within such regions will aggravate the employment problem in the third world while imposing a high cost to the Community herself.

IV. THE INSTITUTIONAL FRAMEWORK

a) Users and Operators

In market economies, the process of structural adjustment is carried out mainly by the firms themselves. But in a number of cases, the structurally weak firms, especially the small and the medium size ones, have neither the technical nor the financial resources required to undertake the process. By themselves they are often unable to forecast the impending changes in the determinants of the competitive positions and some times are not even aware of the reconversion possibilities which exist. And the difficulties for structural adaptation becomes particularly sharp during the recessions, specially for those firms which have resisted change and continued to survive under protection. The same problems apply, to an even greater extent, to the workers who would be directly affected by structural changes. Understandably, they react adversely to the fact that the costs of the structural adjustment tend to fall heavily on them. The most important objective of the adjustment policy proposal as elaborated above is to provide both groups with the necessary information and help required for restructuring. They, in fact, are the main beneficiaries or users of the proposed system.

An anticipatory adjustment policy of the type sketched above has implications for various aspects of the European Community's policy and various segments of its administrative structure. It has also of course implications for the economic and social policies of the member states, although the proposals we have made here are those which can be made operational at the level of the Community itself. It is worth noting here that the cardinal lesson that was learned from the lack-luster performance of the adjustment policy instruments of the Trade Expansion Act of the United States is that the administrative responsibility for the operation of the system should not be dispersed among too many agents. The administrative responsibility for the system as we have proposed it at the Community level, can be broadly allocated to a very limited number of units.

b) Elements of an Industrial Cooperation Policy

The process of structural adjustment is, of course, closely related to that of international redeployment of industries or the so-called new international division of labour. We shall briefly touch upon the operational part of such redeployment, in so far as it has a link with the adjustment policy proposal elaborated above.

The close involvement of the authority responsible for the regulation of the link between the preferential trade policy and the adjustment policies and the operation of the Early Warning System would provide it with important information concerning sectors and branches which are already nonviable in Europe or likely become so in the near future. Some of these activities are precisely those for which the developing countries are showing considerable growth potential. Hence, the above-mentioned information could be of use to the "users" of the scheme in so far as they themselves might be willing to redeploy part of such activities to the developing countries. More significantly, such information could be of considerable use in the implementation of the industrial development cooperation policy of the European Community with the third world. In the context of such cooperation - which currently extends only to the Lomé Convention countries, but which hopefully will become more global - the information could be made available to the developing countries. Further, if particular developing countries are in fact interested in setting up industrial activities for which they have comparative advantages but which, for structural reasons are untenable in the member countries of the European Community, the necessary technical or financial assistance could be made available within the framework of the industrial development cooperation policy of the Community.

CHAPTER III - INTERDEPENDENCE AND COOPERATION BETWEEN THE EEC AND DEVELOPING COUNTRIES

I. INDUSTRIAL INTERDEPENDENCE AND COOPERATION (1)

The main economic problems of the EEC are in the field of growth and employment. The latter ones are only partially related to the decline in the rate of economic expansion. They are also due, among other factors, to a change in the structure of productive investments and to a shift in the international division of labour between d.c. s and l.d.c. s.

It is becoming commonly accepted that the growth- and employment problems of the EEC, and the related problems in terms of structures of industry and of international economic relations are not only due to short-term frictions in the economic system, but have an important structural component as well. They are also consequence of a change in the relative weight of the various driving forces behind the development model of the industrialized countries during the last 25 years. In a way, one might say that we are witnessing the end of a specific period in the expansion process of the d.c. s and in the concomitant international economic relations. The new scenario which is unfolding indicates also a different role for the l.d.c. s in the world economy.

Employment perspectives for the productive sector of the European economy remain gloomy, even if there were to be a recovery in the rate of industrial growth. There is scope for pessimism when actual and future potential of l.d.c. s to produce cheap labour-intensive manufactures for the d.c. markets are taken into account. Especially with regard to the latter element it can be observed that push- and pull factors have been coinciding. The intensification of competitive relations among the industrialized countries or rather among the various internationally competing capital groups has enforced an intensification of the search for the least expensive production locations on a global scale. Technical, financial and organizational capacities in corporate business - especially but not exclusively in M.N.C.s - have been sufficiently developed to make feasible now a further international relocation of productive activities (2). This tendency has been re-inforced by many l.d.c. governments, offering generous incentives for the

(1) By Ben Evers

(2) See also Part I, Chapter II-1-b.

establishment of foreign export-oriented industries, and competing among themselves to attract Western M.N.C.s for these purposes.

Low-growth, unemployment and accelerated industrial imports from low-wage countries make increased pressures for defensive measures quite understandable ; pressures not only from the trade-union side but also from industrialists. In addition, the claim for defensive actions has been strengthened by questioning the developmental value for L.d.c.s of a growth-strategy basically relying on export-production for d.c.s' markets, almost completely dependent on foreign technology and foreign productive and commercial capital.

Thus, trade-protectionism - in open and/or disguised form - against L.d.c.s' industrial exports has been on the increase.

Obviously, the importance for European industry to control substantially its internal market cannot be doubted, neither can the urgency be denied for elaborating a strategy aimed at restoring full-employment. However, this does not imply that partial and/or predominantly defensive policies will be effective in this regard, considering the economic structure of the EEC.

The advantages and dangers of trade-protectionism have been sufficiently described in many documents, and need not be repeated here. For illustrative purposes only, the following examples will suffice.

The introduction of indiscriminate labour-absorbing incentives for the productive sector may retard the development of technology- and capital intensive industries, in this way increase the degree of technological dependence of the EEC and endanger its long-term export perspectives. Ill-conceived or badly coordinated policies of subsidizing threatened industries might contribute to a temporary survival and keeping intact parts of the industrial structure that nonetheless will prove to be unviable in the long-run, however at the cost of a slower development of more promising and efficient industries ; in addition these kind of policies might introduce new forms of "beggar-thy-neighbour". Indiscriminate protection against cheap-labour imports might affect real wages and/or even lead to a relative loss of international competitive power of EEC industry vis à vis its main competitors, if the latter follow a more open policy.

Thus, the short-term benefits of a purely defensive policy are out-weighted by the long-term disadvantages, not only in terms of growth and exports but even in terms of employment.

The same type of reasoning can be applied to l.d.c.s. Practically all l.d.c.s are heavily dependent on imports of capital goods and intermediate products for accelerating their development process. When industrialized countries do not allow easy access of manufactured products from l.d.c.s, the capitalization and industrialization process of the l.d.c.s will slow down. This will also, however, negatively affect the export possibilities of the d.c.s. On the other hand, one should not make the mistake of underestimating the political will of most l.d.c.s to speed-up their industrialization anyhow.

Consequently, a different strategy is necessary. One that takes into account the weak and the strong elements of the EEC's economic structure, particularly in relation to the structures of its main competitors internationally, one that emphasizes the dynamic instead of the static elements ; one that also takes adequately into account the interests as well as the potentials of the l.d.c.s. It is in the framework of such a strategy that the relationship between the EEC and the l.d.c.s must be discussed.

Obviously, this is not the place to elaborate upon these points. Regarding in particular the relationship between the EEC and the l.d.c.s, it is useful, however, to recall the following elements (1).

Firstly, the EEC is, heavily dependent on l.d.c.s for its energy supply. This is especially true for petroleum. Petroleum accounts for about 55 % of total energy consumption of the EEC. The degree of import-dependence is about 95 % ; of this 87 % is supplied by l.d.c.s.

Secondly the import-dependence of the EEC for other primary resources is also relatively high. For example, in the case of minerals this amounts to well over 75 %, and for such vital minerals as lead, copper, tin, manganese, nickel, phosphate, the EEC has to import up to 90-100 % of its needs. The EEC is also a significant importer of agricultural raw materials ; for tropical products the import-dependence is 100 %. Although the relative contribution of l.d.c.s in the provision of these products is not as high as in the case of petroleum, they still are very important suppliers for the EEC. For example, 46 % of total extra-EEC imports of food products is supplied by l.d.c.s ; for agricultural raw materials

(1) See : Michael Noelke : "Dossier sur l'Interdépendance Europe-Tiers Monde" C.C.E., document de travail, 481/X/78 Bruxelles, 1978

this amounts to 26 %, for minerals about 40 % and the same percentage in the case of non-ferrous minerals.

Thirdly, l.d.c. markets constitute a very important and dynamic outlet for EEC industry. Between 1970 and 1973 extra-EEC exports to l.d.c.s grew as fast as to d.c.s (by about 42 %, expressed in ECU's) ; between 1973 and 1977 exports to d.c.s expanded by 72 % but to l.d.c.s by 169 % ! Thus, the share of l.d.c.s in the EEC's exports increased from 28 to 38 % between 1973 and 1977. OPEC countries obviously are by far the most dynamic markets, but exports to ACP countries are also very dynamic. Generally, exports to non-petroleum exporting l.d.c.s have grown faster than to d.c.s in this period. The EEC remains the most important supplier of l.d.c.s with about 41 % of total d.c.s imports, followed by the USA with 33 % and Japan with 20 % ; however the market-share of the latter is on the increase. With respect to the composition of exports to l.d.c.s it is worth observing that about 87 % of EEC's exports are formed by manufactures, 61 % of which are electro-mechanical products. Capital goods are indeed the most dynamic export category of the EEC's exports to l.d.c.s. The composition of the EEC's exports does not compare unfavourably with those of the USA and Japan. For example, 13 % are formed by primary products against 87 % for manufactures ; the figures for the USA are 28 and 72 % respectively and for Japan 5 and 95 %. Regarding industrial exports the EEC and the USA are somewhat stronger in electro-mechanical and chemical products, whereas in Japanese exports iron and steel and textiles score relatively higher. Finally, it may be observed that of the total export surplus of manufactured products of the EEC - necessary to compensate for the raw materials shortage - 60 % was realized by trade with the l.d.c.'s.

Fourthly, the rapid increase of the EEC's industrial exports to l.d.c.s has been accompanied by an even faster growth of l.d.c.s' industrial exports to the EEC. In the period 1965-76 the latter ones quintupled. At a general level, the impact of l.d.c.s' industrial exports is rather limited in view of the extremely low participation of l.d.c. s in world industrial production. On the other hand one should not under-estimate the impact either. In static terms, certain problems are being created by the circumstance that l.d.c.s' industrial exports are originating from only a few countries, and are concentrated on relatively few product-categories. In dynamic terms one should take into account that :

- a) re-location possibilities for industrial productive activities will increase ;
- b) more l.d.c.s will be reaching a semi-industrialized stage and will be pressing for increased access to the EEC's market ;
- c) more l.d.c.s will engage in higher degrees of local processing of raw material exports ;
- d) l.d.c.s will expand trade in industrial products among themselves, thus affecting the EEC's future export possibilities (in 1974 already 33 % of l.d.c.s' industrial exports went to other l.d.c.s).

The above few elements already provide sufficient indications for the fact that the economic relationship between the EEC and l.d.c.s may no longer be seen as one almost exclusively based on exports of manufactures and imports of raw materials. More and more elements of industrial interdependence are also becoming incorporated in this relationship. One might even go a step further. In order to be able to continue paying for its raw material imports, the EEC has to expand its industrial exports. Since competition on the world market for standard industrial products will become very intense - l.d.c.s offering ever better opportunities in this respect - the best chances for the EEC to continue its dynamic industrial export growth to l.d.c.s lie precisely in an accelerated process of industrialization of l.d.c.s.

This however, needs some specification. One of the most serious restrictions for accelerating industrial growth in l.d.c.s is the external constraint. In order to overcome this constraint a growing number of l.d.c.s are trying to give an export-oriented character to their industrialization processes (apart from other considerations such as employment, technology, size of the internal market, etc..). This orientation gives these processes a more exogeneous character, because they derive their dynamics mainly from d.c.s. Export-oriented industrialization of l.d.c.s, mainly of labour-intensive mass-consumer goods, is an extremely dependent and vulnerable form of industrialization in economic, financial, technological, marketing and even in political terms. In addition, we remain faced with the problem of whether or not this type of industrialization is indeed able to dynamize the international demand for capital- and intermediary goods. At least part of it is mere substitution of production originally taking place in d.c.s. In view of the "concentrated" character of this type of industrialization and of exports, the employment and regional problems of d.c.s will be seriously aggravated.

D.C.s then may be forced to limit the growth of this type of imports, not only for economic but also for social and political motives.

In view of the above, we think it necessary that L.d.c.s as well as d.c.s reconsider the role and significance of the internal markets in L.d.c.s. There are various reasons why L.d.c.s should reconsider the importance of the domestic market, even in relatively small countries :

- a) it is much more easily accessible to small domestic producers ;
- b) it provides a better stimulus for the development of local industrial entrepreneurship, technology and skills ;
- c) the entrance into export markets for L.d.c. firms is very unlikely unless they have first acquired experience in the domestic market ;
- d) it is less vulnerable to fluctuations in the international market.

Obviously, the local markets of most L.d.c.s are too small to support already in an early stage a very wide range of relatively efficient industries. Instead of carrying import-substituting industrialization too far, one should strongly endorse efforts of inter-L.d.c. industrial co-operation and inter-L.d.c. trade in manufactures.

This kind of industrial development does also provide opportunities to the d.c.'s, in particular to the EEC. We have already indicated the importance of the markets of the L.d.c.s for European industry ; their potential market is gigantic indeed taking into account the population of L.d.c.s and the low degree of development of their productive forces.

Accepting the well-known limitations of one-sided import-substituting industrialization in L.d.c.s, there still exists sufficient evidence that more inward-looking industrialization in L.d.c.s is not necessarily trade-restricting, provided that the external constraint can be overcome. The main effect in terms of imports is substitution of more simple industrial products by imports of industrial equipment and complex inputs. The trade-creating effect can become even more prominent in cases where import-substituting industrialization can be combined with exports of industrial products, both to L.d.c.s and to d.c.s.

Increased mutual trade in industrial products among l.d.c.s will speed up their industrialization process, thus increase the demand for capital goods and set free more resources to import machinery and equipment from d.c.s.

To the degree that additional industrial exports from d.c.s dynamize the growth of the latter and help ease their employment and regional problems, they will also be able to accept faster growing industrial imports from l.d.c.s. Of particular relevance in this context is the possibility of growing towards industrial complementarity between d.c.s and l.d.c.s.

Reality is obviously much more complicated than indicated in these few lines. Two conclusions, however, emerge already immediately. Firstly, the new relationship EEC-l.d.c.s needs to be incorporated as a vital element into the EEC's own development strategy. Secondly, the EEC should re-think part of its development cooperation policy along these lines and place greater emphasis on the promotion of more autonomous and endogeneous processes of industrialization in l.d.c.s.

With regard to the EEC's development strategy, at least the following elements merit special attention :

- a decrease in raw-materials dependency of the EEC implying safeguarding of long-term supplies from producer countries through various instruments (see also next paragraph of this chapter), exploration and exploitation of alternative supplies (incl. recycling), decrease of raw-materials intensity in production and consumption ;
- development of new activities on the basis of new consumer needs (e.g. information, communication, environment, etc..) ;
- expansion of the production of not directly productive capital goods ;
- expansion of the social sector of the economy, relevant in terms of welfare as well as employment.

More particularly in relation to industry (1) :

(1) B. Evers, G. de Groot, W. Wagenmans : "Perspectives of Industrial Re-adjustment. The EEC and the Developing Countries". Development Research Institute, Tilburg, Netherlands, Feb. 1978.

- the development of new capital-, technology-, and skill intensive industries and products. These industries are very R & D intensive. Examples that may be mentioned are telecommunication, nuclear technology, aircraft, micro-processors, electro chemistry, biotechnology, etc... In many cases their development depends on substantial government support. Not only are these industries important for the entire EEC, but their development in a number of cases transcends the possibilities of individual countries. Thus, a spear-head policy should be elaborated at EEC level ;
- the re-adjustment of industrial structures of the EEC, directed at the improvement of the competitive position of European industry vis-à-vis third countries. With regard to the restructuring policy the objectives may vary, according to the position of industries in the hierarchical structure of production and on the intensity of external competition. For basic industrial sectors (such as iron- and steel, heavy metal industry, chemical industry, advanced machinery and the like) the re-adjustment process may not result in the breakdown of vital parts of the industry, because this, in the long run would imply a loss of control over technical-, economic-, and social conditions of production. The capacity of the EEC to act upon the determinants of the international division of labour should be fully utilized to ensure that this type of "structural preferences" converges with the requirements of the i.d.l. This means that European industry should be capable of supplying the domestic market at internationally competitive conditions. It does not mean, on the other hand, that the EEC should be self-sufficient in the whole range of products, nor that it should be an exporter of the whole range

For industries that occupy a lower place in the hierarchical structure of production, such as textiles, clothing, leather- and products, simple machinery, components of mass-consumer goods, etc..., the objectives of a readjustment policy may be somewhat different. Next to maintaining some productive capacity for safeguarding essential consumption needs, the basic objective should be to realize industrial complementarity with l.d.c.s, based on comparative advantages. Export objectives, however, being much lower than for the above mentioned industries.

Regarding l.d.c. markets, in particular the readjustment policy should anticipate future import requirements of l.d.c.s resulting from an accelerated industrialization process.

Thus, anticipatory readjustment has a twofold meaning. Anticipating export potentials of l.d.c.s should be complemented with anticipating import needs of l.d.c.s.

The above and other elements can contribute in one way or another to the birth of a new stage of long-run economic expansion. It should be stressed again that such a strategy should be seen as a package deal aimed at the simultaneous attainment of various objectives such as growth, change in the structure of production and trade, employment, development of l.d.c.s, etc...

With regard to the industrial development co-operation policy of the EEC, a variety of instruments can be put into effect (1), the main objectives of which are to promote the industrialization of l.d.c.s, maximizing simultaneously industrial exports from the EEC. In financial terms one should envisage a significant increase in the flow of public and private funds especially to those countries that dispose of great potentials for accelerated industrialization but whose industrialization processes are hampered by balance of payments constraints. In industrial terms one can think of extending agreements on industrial cooperation, technical, scientific, technological assistance, etc... to other rapidly industrializing l.d.c.s that offer the most interesting market and investment potential to EEC industry (2).

This, however, should not so much result in an increase of sub-contracting activities of EEC enterprises in l.d.c.s, given the generally limited developmental impact of this type of activities in l.d.c.s and the employment and regional problems they create in d.c.s. The aim is much more to promote co-production and specialization agreements between firms in d.c.s and l.d.c.s, to facilitate and promote co-operation arrangements limited to aspects of marketing and technology, and to stimulate investments by way of joint ventures.

(1) See also "Reciprocal implications", SEC(77) 2060, June 1977.

(2) However, industrial cooperation should not be interpreted in too narrow a sense, because contributing to agricultural development and infrastructure in l.d.c.s can also speed-up industrialization. In addition, the above should not be interpreted as a plea for concentrating development cooperation on the "most promising" countries, however, aid to the "least promising" has a different justification.

In the case of co-production between industries in d.c.s and l.d.c.s it is agreed that both parties produce and trade among themselves components which are incorporated into the final good assembled by one or both of them. The d.c.s' enterprises may supply (part of) the production installation, licences, technical assistance, etc... Once the l.d.c.'s plant is operating, the d.c.'s enterprise supplies the parts of the goods which incorporate more advanced technology and the l.d.c.'s plant supplies products where production is somewhat less demanding and incorporate the highest labour component (however, the fact may not be overlooked that in a growing number of cases components with fairly demanding requirements are or can already be produced competitively in l.d.c.s - for example in the metal transforming industries). The assembly of the finished good is carried-out in the d.c. or the l.d.c. or in both according to the technological requirements involved, the relative labour- and capital intensity and alike considerations.

In the case of specialization, instead of distributing the production of the components among the plants situated in both countries a distribution of the types or models is agreed upon.

Cooperation arrangements limited to certain aspects only arise out of the tendency to break down the investment package into its main components : with technology, access to markets, organizational capacity, financing, l.d.c. enterprises might be provided with the opportunity to export all or part of their production abroad.

Joint ventures include capital elements, technology and management capacity from d.c.s' enterprises to be combined with national elements from the l.d.c. Facilities for exports are also to be negotiated.

This kind of agreement can be promoted through a wide range of instruments both at Community and at national level.

Evidently, their successful implementation will result in an increased penetration of industrial products of l.d.c.s in the EEC market. However, the possibly negative effects in terms of balance of payments and/or unemployment will be greatly reduced if not completely compensated for by the accompanying increase in EEC exports on account of the growing industrial production in l.d.c.s both for exports

and for their domestic markets. In addition, this kind of arrangement can contribute to safeguard the position of European capital in the world markets for industrial products and provide additional funds for technological advance. Finally, and of crucial importance, is the fact that they provide a vehicle for growing towards an intra-sectoral i.d.l.

The promotion of industrial expansion in l.d.c.s, stimulated through this type of cooperation agreement, should have its complement in EEC trade policy. If the tendency towards the creation of an inter-sectoral i.d.l. cannot be reversed, employment- and adjustment problems in the EEC might become insolvable and the EEC might be forced into a position of increasing protectionism, in particular through extending contractual agreements of the Multifibre agreement type to other sensitive products. This kind of agreements possesses many disadvantages, already discussed in Part II, Chapter I, one of the most important of them being that they confirm the partial approach in industrial readjustment, which we think to be an incorrect approach.

Anyhow, in the negotiations with l.d.c.s problems of development cooperation, investment and trade should be dealt with as one package.

The same is true, regarding internal policies of the EEC : problems of industrial structure, technology, trade, employment, regional development, etc..., can no longer be seen as isolated from the type of relationship with l.d.c.s the EEC is striving for.

In general terms one could say that the EEC should aspire towards gradually changing its relationship of dominance/dependence vis-à-vis l.d.c.s into one based on partnership, to be reached through a process of programmed interdependence.

II. MINERAL DEPENDENCE AND SUPPLY POLICIES (1)

Agriculture and industry in the Community are dependent on imported raw materials. Today, a large proportion of these come from the third world. However, the policy of diversification, which is in principle a desirable one, has led in conjunction with various other economic and political factors, to neglect of investment and research in the third world, with the result that in the long run, the potential of these countries may be seriously under-exploited. The member countries of the European Community must take action to reverse this economically and politically dangerous trend.

a) Europe's drift away from the third world, especially Africa

The third world's important place among Europe's suppliers is to a large extent the result of prospecting and investment dating from the colonial era, much less of operations carried out after independence.

The following comments may therefore be made on the present situation :

- Europe has devoted insufficient means to renewing its sources of supply in the world as a whole. The expenditure needed to replace sources of the non-energy ores consumed annually in the EEC has been estimated at \$ 2,500 million ; European mining companies have been spending less than \$ 500 million a year in all countries, and under 25 % of that has been going to developing countries, a proportion which has failed to increase from 1965 to 1975 despite a growing need for raw materials. This situation is illustrated by the following table, prepared by Community staff from details supplied by the fifteen main mining companies.

(1) This chapter was contributed by Mr Yves Berthelot and has been based notably on the work carried out by Mr Roland Julienne for the committee of the Commissariat du Plan responsible for studying the position of the French productive sector in the face of competition from third world economies.

EEC research and investment by regions

(in \$ millions, 1976)

	<u>1966</u>	<u>1970</u>	<u>1975</u>
<u>Research plus investment</u>			
Developed countries	342.3 75 %	464.8 68 %	443.7 78 %
of which :			
South Africa	(22.0)	(35.5)	(60.6)
Developing countries	111.1 25 %	219.2 32 %	128.1 22 %
of which : Africa	(81.4)	(33.8)	(51.0)
Latin America	(9.2)	(23.4)	(46.1)
	<hr/> 453.4	<hr/> 684.0	<hr/> 571.8
<u>Research alone</u>			
Developed countries	30.2 56 %	107.3 79 %	163.5 85 %
of which :			
South Africa	(2.4)	(10.4)	(6.8)
Developing countries	24.2 44 %	28.4 21 %	29.3 15 %
of which : Africa	(3.7)	(4.4)	(1.8)
Latin America	-	(0.6)	(8.8)
	<hr/> 54.4	<hr/> 135.7	<hr/> 192.8

- of this expenditure, the amounts devoted to research are weighted even more heavily in favour of the developed countries, whose share has risen in 10 years from 56 % to 85 %, leaving the developing countries with a more or less constant \$ 30 million a year. A continuation of this trend would inevitably lead to increased dependence on sources of supply in the developed countries of the West or Eastern bloc countries.

There are a number of reasons for the trend :

Europe's mining companies are less powerful than their North American competitors, which also have a much wider mining base, except in the case of bauxite : the major European groups include United Kingdom holding companies based mainly in South Africa, a fact which does not make it any easier for them to set up operations in black Africa. As for the American multinationals, they have hitherto, with one or two exceptions (manganese in Gabon, bauxite in Guinea) shown little interest in Africa, but in the last few years they have shown greater confidence than the European companies and have extended their interests from manganese and bauxite to include iron and uranium.

Mining concerns have been more sensitive to the nationalization moves that have followed the independence of states in Africa, and have shown greater confidence in other parts of the world.

The European banking system has not organized itself properly to put up the very large sums of money needed for mining operations.

The partitioning of Africa, like that of Europe, has undoubtedly constituted a handicap, which has not been mitigated by any acutely felt need in Europe for African supplies, except in the case of uranium.

Given equal mining potential, it is the countries which already possess the basic infrastructure and developed financial structures which are likeliest to see their deposits exploited, particularly since such development is cumulative, and a potential deposit located near a site already worked thereby enjoys a competitive advantage.

The industrialized countries of the world have been more thoroughly prospected than the developing regions.

This phenomenon of under-investment in the third-world is doubly dangerous because :

- the technology used in the USSR and the USA is not European ; this means that there are no spin-offs and no control possible ;
- the need to obtain its supplies on the open market puts European industry in a very difficult position when the situation is tight (high prices, shortages of supplies).

b) The need for a balanced policy

The policy followed over the last few years has been to diversify sources of supply. The principle behind such a policy is sound, but it is important not to underestimate :

- the influence of special producer-consumer relationships in periods of crisis ;
- the third world's potential mineral wealth ;
- the importance for international economic and political stability of development in Africa based on the exploitation of the continent's natural resources.

Producers' special relationships with certain customers are linked in the first place to a particular customer's importance. Europe has an advantage here in that it is by far the biggest importer of raw materials from the developing countries.

Imports of metals and raw materials from the developing countries
(in \$ millions)

Origin \ Importing countries	All developing countries		Africa		Latin America	
	1969	1973	1969	1973	1969	1973
EEC	2,811	3,685	1,975	1,925	973	1,083
United States	1,198	1,685	69	108	778	986
Japan	1,213	2,129	334	422	346	558

However, the companies operating the mines should also be taken into account here. Those active in Latin America are US multinationals, and they are continuing to invest there. Similarly, US firms often appear to be taking the initiative in Africa as well.

The third world is underexploited in terms of its potential, but over-exploited in terms of its known resources.

This means that knowledge of its geological characteristics and ore deposits is still patchy, some of the less accessible areas not having been properly studied until after world war II.

Intensity of mining production, excluding energy-generating products,
by region
(in \$ per km²)

	1973	Annual growth 1968 - 1973 (by volume)
World average	270	4.4 %
Developed market-economy countries	542	3.8 %
Developed planned-economy countries	324	5.7 %
Developing countries :		
America	175	4.1 %
Africa	127	3.3 %
Asia	119	6.4 %

Not only is Africa running at only 47 % of the world average, but it is losing ground because it has the lowest growth rate.

The situation product-by-product is shown in the following table :

Resources and production (in millions of t and as a %)

	Known resources		Production	
	World	African develop. countries	World	African develop. countries
	Mio t	%	Mio t	%
Phosphate	84,000	81.0	98,0	26.6
Bauxite (Al content)	6,310	28.6	73,4	6.4
Iron ore (Fe content)	215,000	11.0	493,5	6.1
Zinc (Zn content)	270	5.6	5,8	5.2
Uranium (U content in '000 t)	1,864	5.0	28,0	5.0
Lead (Pb content)	330	4.3	3,5	5.7
Copper (Cu content)	2,050	8.8	7,5	17.3
Manganese (Mn content)	3,600	3.6	21,6	13.0
Potash (K ₂ O content)	87,127	0.1	21,6	1.4

Source : Annale des Mines 1975

According to these figures, the proportion of Africa's reserves exceeds that of production in the case of bauxite and phosphates, and represents a higher percentage than that of the African land surface in relation to the world land mass as a whole. As regards the other ores, Africa has a higher percentage of production than of reserves ; this reflects the inadequacy of research and exploration, which has taken little account of deposits or potential resources not followed up by exploitation, belying

the optimism of experts who maintain that there will be major discoveries in Africa in the next few years (copper, nickel, lead, zinc, phosphates, etc.).

In order to secure diversification of future supplies and exploit the potential mineral wealth of the third world, it is necessary to develop an overall policy of cooperation with these countries in the mining sector, bringing together African governments, local firms and European mining concerns.

In view of the investment cost, the convergence of European interest in this field and the political importance of strengthening Euro-African solidarity, a Community policy of cooperation on mining should be proposed, aimed at securing :

- more relaxed relations between the host country and mining companies by means of tripartite (country-company-EEC) agreements which would improve the general climate and encourage dialogue and cooperation on a mutually profitable basis (technology transfer, stability of establishment guarantees, etc.) ;
- a thaw in the relations between mining companies and the traditional sources of finance based on loan guarantees linked to long-term contracts for the supply of raw materials, contributions by a European public institution to the capital for mining projects, and intervention by the European Development Fund in the case of investments which would not normally be covered by private bank finance in the industrialized countries (e.g. infrastructure) ;
- scaling-down of the political risk by the introduction of a scheme for equitable, rapid compensation in cases not only of sudden nationalization but also of less extensive expropriation measures, thus giving European firms a chance to reinvest in time.

These bilateral or Community measures should make it possible for Europe to take the initiative again in Africa and in the rest of the third world, particularly as regards :

- iron and steel, with a view to giving deposits there a chance against Australian, Brazilian or Canadian developments ;
- the exploitation of a number of non-ferrous metals, to increase the share of African bauxite and copper in our supplies ;
- fertilizer production, with a view to developing long-term agreements which would strengthen the position of the European industry in relation to US firms, recognizing the potential of African potash, and working out an overall fertilizer strategy to meet the world's as yet unsatisfied demand ;
- the search for new deposits, with intensified prospecting in regions as yet not fully explored, and for resources which have been inadequately investigated (lead, zinc, nickel, etc.), where production in the third world does not appear to be in keeping with its potential resources ; and in the field of technical assistance, where a European effort on behalf of certain newly-independent countries such as Angola could, unlike bilateral assistance, forge an effective counterweight to the activities of the two superpowers.

III. COOPERATION IN THE FIELD OF TECHNOLOGY TRANSFER (1)

1. The need for intensifying technology transfer from developed to developing countries (DC's and LDC's, respectively) is widely recognized. This question has been the topic of countless international negotiations; the Lomé Convention addresses a substantial part of its chapter on industrial cooperation to it. Indeed, technology transfer can be regarded both as a relevant and a promising field for economic cooperation :

- relevant, because - if properly designed - it is apt to promote the creation of employment opportunities and to speed up economic development in the developing world while at the same time alleviating structural changes and offering productive employment alternatives in the advanced countries ;
- promising, because in its manifold - foreign direct investment, trade with knowledge (patents, licenses, trade marks, etc.) and technical assistance - it offers a large variety of possibilities for co-operation.

Nevertheless, technology transfer has often been a matter of complaint of LDCs. Then, what went wrong with it and why ?

2. Although the precise contribution of technology transfer to economic development in LDCs is disputed and although experience certainly differs widely among these countries, two general, partly interdependent features seem to stand out :

- first, up to the present technology transfer has not hindered economic growth and employment to remain at unsatisfactory levels in most parts of the third world, and in that sense, technology transfer has not attained a volume that would have been desirable ;
- second, those technologies transferred have not been adequate in many cases, either because wrong for or because unadapted to conditions in the receiving countries.

(1) By Frank Wolter.

In the following paragraphs we shall address ourselves to these bottlenecks.

3. The extent of technology transfer has been mainly limited due to shortcomings in institutions, in competition among technology suppliers, in necessary complementarities in LDCs, and in conducive policies both in DCs and LDCs :

- a) Institutionally, organized markets for technologies suitable for LDCs such as international fairs are very much lacking. Also, in most LDCs technology service centres to collect and provide systematic information about the choice of technologies (local as well as international) are, if at all existent, only in their infant stage. Even in DCs systematic information about alternative technologies is scarce.
- b) Technologies are mostly supplied from private business of DCs. Lacking market transparency on the part of LDCs (compare above) or exclusive technologies often allow suppliers to charge monopoly prices reducing the volume of technology transfer as compared to competitive markets. Occasionally, monopoly positions are induced by LDCs' demands for most modern technologies (such demands, mainly rooted in prestige thinking, in themselves constitute a restriction for the extent of technology transfer).
- c) Lacking infrastructure - physical, human and institutional - in developing countries severely limit the capacity to attract or to absorb technologies. This is especially pertinent for technology transfer by foreign direct investment.
- d) Detrimental policies can be considered responsible for a substantial part of technology transfer which does not take place. Political investment risks, insufficient property guarantees both with regard to physical capital and to human capital (patents), restrictive investment regulations, restrictions for capital or profit repatriation and

"red tape" in LDCs reduce among others the flow of capital and knowledge from DCs to LDCs as compared to what it otherwise would be. On the other hand, in a number of DCs effective protection systematically favours industries under adjustment pressure by LDCs' competition and thereby reduce the outflow of capital and technology.

Adequate measures to remove these obstacles will most probably induce a significant increase of the volume of technology transfer from DCs to LDCs.

4. Further problems result from the fact that, generally, the technologies have been developed in response to factor price relations (and their changes) of DCs and not of LDCs. Therefore, if unadapted, a wrong type of technology tends to be transferred :

- a) By and large, technological progress in DCs have been labour- and natural resource-saving while skill-, physical capital- and energy-using. When implemented in LDCs such technologies tend to absorb their scarce factors of production relative intensively.
- b) Environmental protection standards of most technologies developed in DCs seem to largely exceed present needs of most LDCs. For one thing, in many LDCs environment still is relatively abundant while scarce in DCs. For another, the marginal propensity for environmental protection may be relatively low in cases where excessive unemployment and malnutrition prevail (i.e., the sensitivity to pollution can be expected to be positively correlated with per capita income).
- c) Technological progress has been partly directed towards increasingly exploiting scale economies. Given limited markets in many LDCs, such technologies tend to generate obligopolistic market structures.

d) The quality standards of products and hence technologies, are often designed for mass consumption of high-income countries. Such standards may not meet demand of LDCs.

e) Climatic conditions between DCs and LDCs very much differ. This fact, in many cases, may call for entirely different technology- and product-idiosyncrasies.

5. Finally, policy measures in LDCs and DCs interfere with the market mechanism and thereby hinder the transfer of adequate technologies :

a) Import substitution policies tend to generate a too capital- and skill-intensive production structure considering factor endowments of LDCs. Also, such policies effect foreign direct investment to be governed by market preservation motives instead of comparative cost considerations.

b) Factor price policies in many LDCs are detrimental with regard to the transfer of adequate technology. For one thing, minimum wage policies, social security systems and other labour market regulations tend to raise the price of labour well above its scarcity value. For another, capital investment is highly subsidized by soft investment credits, imports of capital goods at preferential duties and at overvalued currencies, and by a host of tax allowances. Factor market distortions resulting from such measures bias technology transfer towards capital intensity as well.

c) DC's public development aid is often tied to purchases from domestic sources. In such cases, LDCs at best casually get access to most adequate technologies.

d) Incentives to support foreign direct investment are usually tied to the amount of capital invested and therefore favours the relocation of capital-intensive rather than of (unskilled) labour-intensive activities from DCs to LDCs.

Existing open and disguised unemployment and future population pressure urgently call for changes towards more labour-intensive development strategies in LDCs and, hence, for changes in such policies.

6. Remedial action to raise the volume of technology transfer and to change its hitherto nature may include (1) measures to raise transparency about the choice of technologies (2), measures to strengthen the confidence of would-be suppliers of technology, and (3) measures to correct for the effects of distorted market signals.

1) In order to raise transparency development aid may be directed towards providing funds in order :

- to collect local technological know-how in LDCs systematically;
- to gather information about alternative technologies in DCs;
- to establish technology information centres in LDCs;
- to sponsor national and international fairs for labour-intensive and intermediate technologies;
- to train up indigenous technicians and engineers for the technological needs of labour surplus economies;
- to provide technical assistance for the establishment of research, development and training centres for the adaptation of transferred technologies;
- to sponsor economic co-operation among small- or medium-scale firms from DCs and LDCs or from various LDCs.

2) A number of measures can be considered in order to strengthen the confidence of would-be suppliers of technology. A relevant proposal envisages the bargain of free market entry in DCs for free investment areas in LDCs. Also, LDCs should be encouraged to join international patent conventions and to guarantee expropriation procedures according to international law.

3) Corrections for distorted market signals may be effected by the following measures :

- Development strategies in LDCs have to be oriented towards labour-intensive activities. An outward-looking move will, by itself, induce such a tendency. Furthermore, public incentives in LDCs should be granted taking the employment effect rather than the amount of capital invested as the relevant criterion for the amount of subsidy.
- Factor price distortions in LDCs have to be gradually reduced by bringing real wages in closer contact to marginal productivities and by diminishing the artificial underpricing of physical capital.
- Public enterprises may be forced to adopt labour-intensive technologies whenever there is a choice among alternative technologies with comparable total factor productivity.
- Foreign direct investment in labour-intensive activities can be favoured in LDCs.
- DCs may give incentives in order to effect that only adapted technologies are transferred to LDCs.
- DCs' development aid could systematically favour labour intensive projects, small- or medium-scale operations and the industrial development of rural areas.
- Subsidies given to DCs' foreign direct investment in LDCs may be linked with employment effects.
- Incentives may be provided to sponsor research and development in labour-intensive and intermediate technologies both in DCs and LDCs.
- The transfer of second hand equipment from DCs to LDCs may be subsidized.

Proposals along these lines are neither new nor exhaustive. The urgent need, however, is that measures of this kind be systematically implemented.

ANNEXES

PREFERENCES (NATIONALES) DE STRUCTURE (1).

En "choisissant" soit d'abattre les barrières douanières, soit de renforcer l'armature protectionniste : c'est bien en fait, le choix d'une structure nationale que, plus ou moins consciemment, les hommes politiques pouvaient avoir la prétention d'opérer. Laissons pour l'instant en suspens la question de savoir dans quelle mesure les gouvernements pouvaient être "libres" de faire un tel choix.

J. WEILLER (1) p. 284.

L'objet de ce rapport est d'examiner les conditions de compatibilité entre diverses politiques affectant, d'une manière ou d'une autre, les relations entre la C.E.E. et les Pays en Voie de Développement.

Par définition, chacune de ces politiques poursuit des objectifs spécifiques et s'efforce de réaliser ces objectifs au moyen d'une instrumentation spécifique : les incompatibilités peuvent se situer à chacun de ces deux niveaux - celui des objectifs et celui des "voies et moyens" - et différemment selon l'horizon temporel adopté.

Le terme de "préférences de structure" vise à exprimer le fait que, dans la mesure (et uniquement dans la mesure) où des relations, plus ou moins précises selon les cas, existent entre la structure d'activité (industrielle) et les ou certains des objectifs poursuivis, l'existence de ces politiques, poursuivant tel ensemble complexe et pondéré d'objectifs, a nécessairement des implications structurelles.

Les "préférences de structure" ne font donc qu'exprimer les implications résultant, quant à la structure d'activité, de la poursuite d'un ensemble hiérarchisé d'objectifs économiques et sociaux. C'est en d'autres termes la traduction, en termes de structure industrielle, d'échelles de valeur collectives.

(1) J. WEILLER : Problèmes d'Economie Internationale, tome II, Une nouvelle expérience : l'organisation internationale des échanges, P.U.F., 1950, IV^e partie, C. III. Les préférences nationales de structure et la notion de déséquilibre structurel.

J. DE BAUDT, Spécialisation internationale et structures d'activité industrielle - Cujas - 1975, et Politiques industrielles et objectifs d'industrialisation - Cujas - 1977.

Cette définition générale étant donnée, un certain nombre d'indications permettront de faire ressortir ce que les préférences de structures ne sont pas et ce qu'elles sont.

D'abord ce qu'elles ne sont pas :

- Il ne faut pas confondre les préférences de structures avec les structures imposées par des groupes d'intérêts particuliers.

Il existe une hiérarchie explicite ou implicite entre les divers objectifs. Mais, par rapport à une hiérarchie normative, résultant plus ou moins de concertations de type démocratique, la réalité connaît des hiérarchies de fait, résultant en outre de rapports de force entre groupes sociaux et du jeu de groupes d'intérêts. Ceci concerne en fait le processus de choix et de décisions : le fait que celui-ci puisse ne pas être (assez) démocratique, ne met pas en cause, en tant que telle, le principe de la hiérarchisation des objectifs (1).

- Les préférences de structure ne peuvent être confondues avec les instruments politiques visant à réaliser cette structure ou les objectifs économiques et sociaux assignés.

Les voies et moyens utilisés pour atteindre ces objectifs reposent évidemment sur un certain nombre d'hypothèses quant à leur action et leur efficacité. Outre que la politique peut être insuffisante ou mal appliquée, elle peut également être erronée, parce que le modèle sur lequel elle repose se trouve infirmé dans les faits.

- Le fait de justifier l'existence de préférences (nationales) de structure n'implique à priori aucun choix quant aux structures que l'on préfère, c'est-à-dire au contenu de ces préférences dans des circonstances de temps et de lieu données. Les préférences de structures ne peuvent en aucune manière en particulier être assimilées à la conservation de structures existantes.

S'inscrivant dans une perspective de libre-échange, cette notion introduit l'idée selon laquelle les structures d'activité ne peuvent pas, sans plus et exclusivement, être déterminées par les forces du marché international.

(1) De la même manière les tenants de l'économie de marché ne mettent pas celle-ci en cause, du seul fait que dans la réalité des rapports de force inégaux s'y établissent. Cela signifie plutôt que ces derniers doivent être éliminés.

Ensuite ce qu'elles sont :

- Le choix quant à la structure d'activité souhaitable est fonction du système d'objectifs et tout changement des pondérations ou échelles de valeur se traduira par un nouveau choix.

Ce n'est qu'en posant le problème de cette manière explicite, qu'il est possible d'évaluer les coûts et bénéfices des diverses alternatives.

- Les préférences sont l'expression du souhaitable à l'intérieur de la sphère du faisable, compte tenu de l'ensemble des contraintes existantes, parmi lesquelles les contraintes extérieures sont sans doute déterminantes.
- Les préférences de structure reposent sur un certain nombre d'hypothèses, ou d'évidence selon les cas, quant à la relation entre cette structure et la réalisation des objectifs poursuivis, dans le cadre des objectifs donnés. Les préférences de structure ne sont donc que l'explicitation, à partir de ces relations, des implications sectorielles du système des objectifs sociétaux que la société s'assigne.

SOME RESERVATIONS ON THE 'STRUCTURE PREFERENCES' APPROACH

by P.K.M. THARAKAN

1. The present note raises some questions at the technical level, about the use of structure preferences approach in formulating proposals in the field of reciprocal implications of the trade and development policies of the European Community towards the developing world. The fact that these questions are raised does not of course detract in any way from the merits and the originality of the basic document to which this note mainly refers *.
2. The first problem which the above approach raises is one of perception and quantification of the so-called structure preferences. The document defines at one point structure preferences as what is reflected in the "sector composition of the industrial system, of the socio-economic objectives which the country explicitly or implicitly makes its own, in the framework of specific constraints" (p. 57). This of course amounts to a "revealed structure preference" which is time- and country-specific. Since there are no explicit formulations of the socio-economic objectives that have led to these structures (if indeed they are the result of such objectives) the authors proceed to quantify a certain number of objectives. The weighting system used is rather arbitrary. Given the varied nature of the "perceived" objectives, it can be of course nothing else. The approach has certain merits as a simulation model, particularly in confronting the policy makers with the implications of various options.

* Institut de Recherches en Economie de la Production, Industrial Redeployment Perspectives in France: Structures Preferences and Optimization, Nanterre, July 1978.

This is the most concrete presentation of the structure preference approach which the author of this note has seen, and it seems to be the empirical and theoretical basis of the relevant sections of the draft report.

But a simulated optimum of arbitrary weights cannot claim positive or normative value. The former (positive relevance) would emerge if the perception and the quantification of the structure preferences are accurate. But we would still need a normative framework to evaluate a given system of structure preference. Otherwise one would be confusing the perceived structure preference of a given moment (or alternative possibilities indicated by a simulation model) as tantamount to a normative or ideal structure.

3. As the authors are aware, there are numerous technical problems that rise in trying to obtain a multi-criteria optimization for even one country. This is particularly reflected in the text in the increasing transformation of objective functions into constraints. The major alternative, i.e., the successive optimization of the various functions would amount to the abandoning of the simultaneous optimization approach. But let us assume that these and other technical problems can be overcome. Further let us make the improbable assumptions that: (a) structure preferences can be accurately perceived and quantified for a given country; (b) the normative framework necessary for its evaluation can be developed and (c) a simultaneous, multi-criteria optimum corresponding to the normative optimum can be estimated for the country concerned. We would be still far from solving some of the major problems in the use of this approach in an international setting. Given the complex nature of the socio-economic objectives believed to be implied in the 'structure preferences', there is no particular reason why a large number of countries, both developing and developed, should not have the same type of structure preferences. What sort of norm would one then use to arrive at an optimal 'structure preference allocation' between countries? Even if we forget about a normative optimum, the technical problems involved in calculating a multi-country, multi-criteria optimum are likely to prove to be insurmountable.

4. These difficulties should not necessarily deter further research from being undertaken in this field. But to me it appears unjustifiable to use an idea which is in its infancy, as yet not fully elaborated or tested, in making operational policy proposals in the field of reciprocal implications of the trade and development policies of the European Community towards the developing world by putting it on equal footing with the considerations of a new international division of labour. The latter approach based on the mutual or comparative advantage considerations has its well known shortcomings *. But at least we know them and can make some provisions against them. As far as the structure preference approach is concerned, due to its present tentative nature, it does not provide a solid basis for making policy oriented suggestions.

* They are not repeated here since all of us are familiar with the literature in this area and considerable reference to these points were made in our discussions.



AN APPRAISAL OF THE ROLE OF THE MULTINATIONAL COMPANIES
IN A NEW INTERNATIONAL DIVISION OF LABOUR °

by

P.K.M. THARAKAN

° This note is based mainly on, Tharakan, P.K.M., Multinational Companies and a New International Division of Labour

I Introduction

1. For the purpose of this note multinational companies (MNCs) are simply defined as "enterprises which operate or control production units in more than one country". The term 'international division of labour' is here defined as the "progressive shift in the pattern of economic activities between regions and countries over time". It is of course evident that the outlook of the large international corporations and the resources at their disposal do not bear comparison with, say, that of a small Belgian or Dutch textile or footwear firm shifting part of its activities to a North African country and becoming a "multinational" in the process. Yet to leave out the latter from the present discussion would be tantamount to ignoring some of the significant recent trends in the new international division of labour.

II Alternative Views:

2.1. Any discussion about the role of the MNCs in a new international division of labour should logically start with the specification of a framework of evaluation against which the defects and the

merits of the process can be assessed. One of the reasons for the conflicting views on the topic expressed by different groups of economists can be traced to two alternative frameworks of analysis often implicitly used. The neo-classical economists and the "revisionists" (the latter term used here as a label of convenience to denote mainly the proponents of the post - Leontief paradox extensions) hold that the optimal pattern of international trade and specialization would result from the concordance of the pattern of the factor endowments of the trading (producing) countries with the factor intensities of the production processes of the commodities traded (produced). Under such circumstances and subject to a restrictive set of assumptions, not only a better distribution of income between countries would be possible but there would be also a tendency towards the equalization of the returns to the factors of production, i.e., labour and capital, within the countries concerned. The same framework of analysis holds that trade and capital movements (including private direct investments) would substitute or complement each other, provided the potential gains from the process are not eroded by non-optimal interventions by the government. Subsequent elaborations of the approach make a distinction between the location specific endowments of the countries and the ownership specific endowments of the firms. It is the combination of the location specific endowments of the countries and the ownership specific endowments of the firms which will determine the pattern of private foreign investment.

Thus one would expect the activities of the MNCs in the developing countries to be concentrated mainly in those industries which combine either natural resources or large amounts of labour - for both of which the location specific endowments of the developing countries are high - with advanced technology (in production and/or in marketing) for which most multinationals have high ownership specific endowments. There is some grudging admission here that in so far as technology-intensive products are often produced and sold in "imperfect" markets, the positive welfare effects may not immediately or directly follow but will have to be gained either by taxing

the higher gains from the 'technological capital' or through the inevitable "fallout effects".

2.2. The alternative approach (Marxist and radical schools) take a completely different track. According to this view, extra-economic institutional factors (such as the development of an efficient trade union movement in the developed countries since the end of the 19th century and the lack or suppression of it in many of the developing countries) rather than market forces have determined the wages received by the labourers. This means that the wages in the developed countries ("centre") rise proportionally with productivity, while the wages in the developing countries (periphery) do not. And the decisive element in the MNC investments in the developing countries is the possibility of creating and appropriating - at the level of the subsidiary as well as at the level of the multinational as a whole - additional surpluses by paying lower wages to workers with a generally comparable level of productivity. It is not claimed that the wages paid by the multinationals are lower than the average wages in that industry in the developing country concerned; on the contrary, they are often somewhat higher.

Neither is it argued that the productivity levels in a given industry in the developing and the developed countries are the same. The point is that the difference between the wage levels are, in any case, greater than the difference between the productivity levels. As for the specific mechanism of the transfer of the surpluses are concerned, there are considerable unresolved intra-mural controversies although the trends in the terms of trade, use of transfer pricing and special provisions provided by both the "host" and the "home" countries of the multinationals are often mentioned.

3. The neo-classical economists and the "revisionists" would probably argue that nothing in the above scheme should necessarily prevent the governments in the developing countries from using optimal policy interventions to correct the 'imperfections' in the factor market (to remove the institutional constraints that prevent the wages from rising proportionally to the increases in productivity),

eliminating the subsidies provided to attract foreign investment (which tend to cancel out each other anyway), and taxing the extra benefits generated by the MNCs. The radicals and the neo-Marxists would retort that in reality neither of the above prescriptions seem to be being utilized. But from the neo-classical point of view, the solution to that situation is not a return to the protectionism, but the development and implementation of policy instruments which can overcome the above-mentioned constraints.

III. Evidence:

3.1. Out of the total foreign private investment in developing countries and southern Europe, by the end of 1972, 42 per cent was in the extractive and agricultural industries, 48 per cent in the industries oriented towards the penetration of the protected markets and only about 10 per cent in the sectors oriented towards the use of cheap, abundant labour. It is interesting to note that the last category of investment, while insignificant in the total figure, amounts to 34 per cent of the total private foreign investment in Asia.

3.2. Extractive industries are generally considered to use intensively both capital and technology, but the agricultural industries can, of course, very well be labour intensive. Industries oriented towards the penetration of protected markets are likely to be more capital intensive than the factor endowment pattern of the developing countries might suggest. The inference that thus a substantial part of the private foreign investments in the developing countries is in capital intensive industries is confirmed by more direct evidence reviewed in the study⁽¹⁾.

IV. Elements of trade

4.1. Nevertheless, the labour-intensive export oriented investments of the MNCs in the developing world have been sharply increasing in recent years. There are different variants of such investments.

(1) See Tharakan, P.K.M., op. cit., chapter III

In certain cases, there are genuine relocations of the entire process of labour intensive production activities to the developing countries, either through a fully owned subsidiary or through some form of joint ownership. Another major variant (found mainly in clothing, some kinds of electrical appliances, etc.) is where the MNCs organize production in the developing countries (mainly through subcontracting) by local firms or craftsmen with the purpose of supplying the international market.

A third variant is the one in which multinationals establish plants in certain countries to manufacture components which represent only one stage in the vertically integrated production line of the firm.

4.2. Although precise measures of the magnitude and trend of this phenomenon are difficult to obtain, there is considerable direct and indirect evidence that has now become available. The different steps of the circumstantial evidence can be concisely summed up as follows: The developing countries have registered very sharp increases amounting to 20 per cent or more per year, in the exports of their manufactures to the developed market economy countries.

A substantial part of these exports have a labour-intensive character (for example, particular dynamism has been shown by product groups such as clothing, metal products, electrical and transport equipment and miscellaneous industrial products such as toys, tape recorders, furs, travel goods, etc.). An important part of such exports to the industrial countries is accounted for by a limited number of developing countries such as Hong Kong, Singapore, Taiwan, South Korea and Mexico. These are precisely the countries in which important amounts of foreign direct investment have taken place (The estimated assets corresponding to direct DAC investments at the end of 1972 amounted to \$ 670 million in Hong Kong, \$ 585 million in Singapore, \$ 400 million in Taiwan and \$ 360 million in South Korea).

4.3. More direct evidence is also now available concerning the phenomenon. Most of the industrial countries have provisions by which domestic components may be sent out of the country for pro-

cessing and for assembling and then returned to the country of origin with the tariff liability being assessed only on the value added in the foreign assembling and processing. By 1972, the imports under such "off-shore assembly" provisions accounted for 22 per cent and 10 per cent respectively of the U.S. and the West German imports of manufactures from the developing countries. What is more striking is the fact that the annual compound rate of the increase of the imports from the developing and developed countries, under the off-shore assembly provisions during the period 1966-1972 amounted to 36 per cent for West Germany and 60 per cent for the United States. In the case of the Netherlands, the imports from all non-European countries under the off-shore assembly provisions accounted for only about 2 per cent of the manufactured imports in 1972, but it had registered an annual compound rate of increase of 39 per cent during the period 1966-1972. Most of the West German imports from developing countries under off-shore assembly provisions came from Yugoslavia. For the U.S., the main sources were Taiwan, Hong Kong, Singapore, South Korea and some of the Caribbean countries.

More than half of the U.S. imports under the off-shore assembly provisions from the developing countries have been concentrated in electronics. Textiles came much further down in the list and accounted for only 8 per cent of such imports. But on the other hand, in the case of the Netherlands and Germany, imports of textile products have been the most important segment of the total imports under the off-shore assembly provisions, accounting for 41 and 49 per cent respectively. Note that for the last two countries mentioned, the statistics of "off-shore assembly imports" mentioned pertain not only to developing countries. Imports of machinery assembled abroad, probably from other Western and Eastern European countries amounted to 29 per cent each in the imports under the off-shore assembly provisions in West Germany and the Netherlands. The share of the imports of electronic products has been extremely low in both countries in 1972.

4.4. Some general remarks and bits and pieces of further evidence concerning the role of the European multinationals in this process

are worth mentioning. Till early 1970s, the European multinationals apparently played only a minor role in the process of setting up subsidiaries in the developing countries with the purpose of exporting to the industrialised countries. Thus, for example, by 1971, while most of the established U.S. semi-conductor firms appeared to be engaged in some "off-shore assembly", only three manufacturing subsidiaries of the European companies were engaged in export production in this field in South-East Asia, Mexico or Caribbean countries as contrasted with 30 subsidiaries of American companies. Nevertheless, an increasing number of large and small European firms have been, more recently, undertaking "off-shore assembly" or other forms of export-oriented labour-intensive investments in developing countries. They vary from industries in electronics and motor vehicles to textile, clothing and leather products ⁽¹⁾.

It is interesting to note that smaller European firms, particularly in the traditional labour intensive industries such as textiles, clothing, leather products etc. seem to be at least as dynamic as the bigger multinationals in this area. Faced with increasing labour costs and sharp competition from the imports from the developing countries, the Dutch, Belgian, German and French industries in the textile and clothing or leather products sectors are known to have relocated part of their activities in developing countries, particularly in Africa.

V. Some Policy Implications:

5. As we have seen, a substantial part of the private foreign investment in the developing world is either in the extractive industries or in the type industries which are oriented towards the penetration of protected markets. Both types of investments are generally capital intensive. From the neo-classical point of view, the second type of investment mentioned - investments which in effect, tend to be mainly of an import-substituting kind - have non-optimal welfare implications. In a number of cases they tend to foster industries which are not competitive but which because of the protected

(1) Some concrete examples are presented in, Tharakan, P.K.M., op. cit., chapter III

markets are able to earn substantial profits. Employment provided by such investments in the developing countries appears to be considerable in absolute numbers, but they are certainly not in proportion to the investments undertaken. This is of course a direct result of the capital intensive nature of the investments. There seems to be also a related and much-discussed problem of unadapted technology. Nevertheless, it should be noted that the indirect employment effects of this type of investments are substantial.

The solutions to the problems related to the import-substituting type of investments mentioned in this paragraph have, of course, to come mainly from the 'host' countries themselves. There is sufficient evidence which indicates that certain types of import-substituting policies, while understandable, have turned out to be self-defeating ones in the long run. The question is whether a progressive relaxation of some of such policies will not be possible in some of the developing countries with large internal markets where foreign (and domestic) investments have shown a tendency to remain too capital intensive and non-competitive. The question here is one of channeling the foreign investments (assuming that the country concerned opts to allow such investments) into sectors which can produce goods which can meet the needs particularly of low income groups, remain competitive, generate sufficient employment and make an overall positive contribution to the economy.

5.1. The export oriented investments of the MNCs are apparently in accordance with the neo-classical exigencies of a new international division of labour. But the conditions under which such investments take place raise some questions of policy relevance. The most important among them are mentioned below.

6.2. One point on which there is substantial agreement is that the direct employment creation effects of the process are considerable. This is, of course, due to the labour-intensive nature of the pro-

duction processes involved. But the indirect employment effects are much less certain, partly because of the low linkage effects (in some cases, the inputs themselves are imported). But in a number of countries, related activities appear to have developed. Neither is there any agreement as to the income distribution impact. Large scale employment creation is, of course, a positive element in this connection. But sustained increases in the real wages might lead to the dismantling of the operations, unless, of course, the MNCs will be willing to move up into industries with higher skill intensity and higher wages (which is what they have done, for example, in Singapore). The learning effects particularly in the training of the industrial workforce, ^{and} the development of the managerial capacity could be positive.

5.3. The growth effects are generally considered to be positive. But the question raised by the 'alternative school' that differences in the productivity between the developing and the industrialised countries are much less than the differences in the wage rates between the two and the additional surplus thus created is not retained in the developing countries, remains. While in principle, it should be possible for the developing countries to retain most of this surplus by proper taxation policies, the large scale incentives offered by a number of developing countries in order to attract such investments nullify that possibility. Further it appears that the instability effects of the export-oriented investments are greater because of the easy transmission of the economic fluctuations in the developed countries and the danger of the rise of protectionist pressures in times of economic recessions.

5.4. It is of course possible to analyse the experience of a limited number of developing countries which have followed the strategy of attracting export-oriented foreign private investments and to draw some conclusions from it. This is, of course, not a very reliable procedure. Even if it were possible to isolate fully the impact of this type of investments from other, related factors, it will still not tell us much about what would have been the case in the absence

of such investments. Simply from a factual point of view it could be noted that the Asian countries which have followed this approach have generally done remarkably well in terms of growth, during the period 1960-1974. South Korea averaged an annual rate of GNP per capita growth of 7.3 per cent, Taiwan 6.5 per cent, Hong Kong 6.6 per cent and Singapore 7.6, all during the above-mentioned period. These rates compare favourably with those registered by the industrialised countries during that period. As far as the relevant statistics show, the income distribution situation in South Korea and Taiwan has somewhat improved during the period of this sharp growth. All the countries mentioned above, particularly the smaller states like Hong Kong and Singapore experienced sharply, the adverse effects of the world recession in 1975. But it is also worth noting that most of them showed a remarkable recovery in 1976 and have not fared too badly so far in the current year. (Even the most vulnerable among them, i.e., Hong Kong, appears to have increased its exports by 7 per cent during the first 9 months of 1977). It is indeed true that most of them (particularly the city states) are vulnerable to the rise of protectionist pressures in their main markets. But the existence of that vulnerability is not an economic rationale for the setting up of such protectionist measures in the industrialised countries or for developing an inward looking policy (as distinct from a policy of diversification) in the developing countries concerned. The first part of that reasoning would be equal to arguing in a circle.

6. As the above analysis shows, no easy generalizations are possible about the role of the MNCs in a new international division of labour. Decisionmakers, particularly in times of economic crises, need simple, clear cut answers. But there are no simple solutions to complex problems. The nature of the current involvement of the multinationals in the "shift of the economic activities across countries and regions" raises some pertinent questions, whether one accepts a neo-classical or an 'alternative' point of view. We have mentioned some of them in the above paragraphs and indicated some of the policy implications.

A PRELIMINARY NOTE:

EEC POLICIES AND THE MEDIUM-SIZED SEMI-INDUSTRIALISED DEVELOPING ECONOMY:
ALTERNATIVE SCENARIOS

1. In this note a number of issues are raised regarding alternative scenarios, broadly defined, which might face the semi-industrialised economies over the medium and long term, and the implications of such developments for the EEC.

2. There is no such thing as a typical LDC, but a rough typology can be sketched for our purposes. Five different groups can be identified.
 - a) Those economies which have pursued a successful strategy of export-led growth based on manufactures. This is a relatively select group of countries (entirely in South East Asia?).

 - b) Those countries which have followed an import-substitution strategy and have subsequently begun to enter the manufactured product export market, using the capacity created for other purposes (e.g. India and Brazil) - for whom exports still account for a small part of the total market of the manufacturing sector, although they have been much more important at the margin in recent years and have a particular importance in releasing balance of payments constraints.

(By 1973, Hong Kong, South Korea, Yugoslavia, Brazil, Singapore, Malaysia and Taiwan - countries from both (a) and (b) - accounted for 72% of manufactured exports from the LDCs. This, and a number of other background points are taken from a very useful study by G.K. Helleiner written for the ILO, Transnational Enterprises, Manufactured Exports and Employment in the Less Developed Countries, June 1975.)

 - c) Those economies which have experienced a substantial period of import-

substitution industrialisation but which are still dependent on primary commodity exports for foreign exchange earnings, and are either now entering or see themselves potentially, over the medium term, entering category (b).

d) Those economies which have virtually no industry - although in this case they may well be low-wage economies which would be particularly attractive for certain types of labour-intensive foot-loose manufacturing (e.g. Haiti?).

e) The oil-rich economies which have both the intention and the possibility of moving into heavier, more capital-intensive industries (steel, petrochemicals), on the basis of which they may become a significant factor in world trade.

3. The existing importance of manufactured exports varies tremendously from country to country - countries which are particularly dependent on such earnings are the 'city-states' falling into category (a) (Hong Kong; Singapore). For countries such as Brazil manufactured exports generate a very small proportion of total industrial activity. However, it is particularly countries in categories (b) and (c) which are faced with complex balance of payments constraints on their development, as they have created an import dependent manufacturing sector and have, in some instances, incurred substantial externally held debts. Therefore, at the margin of expansion, manufactured exports may well make a contribution to the overall expansion of manufacturing activity well in excess of their apparent weight within the sector.

4. Manufactured exports from LDCs form only one, modest part of the network of interconnections between LDCs and Europe. At least in the short term, in relation to countries in categories (c) and (d), and even those in (b), primary commodity trade, private capital movements, aid (and in some cases labour movements) are of more significance than manufactured exports. Likewise, the interests of the EEC in relation to access to stable supplies of raw materials, direct investments, financial obligations, and markets for manufactured goods, have to be weighed against any difficulties arising from imports from LDCs.

5. To talk of the interests of the EEC or even of individual member states is an oversimplification. It is well known that an important part of the recent growth of trade in manufactured commodities is intra-firm trade, resulting from the efforts of transnational corporations to rationalise their productive systems on a world scale. Also, some industries within EEC countries benefit more than others from the expansion of LDC markets and from the overall expansion in world trade. On the other hand, certain traditional labour-intensive industries, and the less effective competitors with the more mobile and aggressive transnationals, lose as a result of structural change. There is therefore a possible conflict of interests between firms, between regions, and, obviously, also the possibility of conflict of interest between capital and labour.

6. In the changing pattern of world trade the consequences for Europe of the growth of manufactured exports from LDCs is likely to be felt as much in terms of competition in third markets, including other LDCs, as in competition in the home market. In this regard, it should be noted that trade in

manufactures between LDCs tends to involve somewhat more capital-intensive type activities than manufactured exports from LDCs to the industrialised economies. An important aspect of growth of trade between LDCs in manufactured commodities represents the extension of the process of import substitution across national boundaries.

7. Looking at the problem from the LDCs' point of view, and thinking particularly of countries in categories (b) and (c) above, we may note that in response to (i) the successful experience of countries in category (a); and (ii) highly authoritative advice from a number of sources (e.g. the OECD sponsored studies on trade and industrial policy of the late 1960s) there has been a shift in the climate of opinion in relation to industrialisation policy away from inward-looking import-substitution strategies towards the potential benefits of export-led growth. By and large, the new conventional wisdom projected is that an industrial strategy should emphasise the possibilities of exports, and that as a result, both a more rational system of production on the world scale should emerge, and the individual nation should optimise its development potential.

8. Economic advice in general, and advice offered to third world countries in particular, involves a lag - the battles of the last war provide the basis for the current strategy. The advocacy of export-led industrial growth derived from the experience of the extraordinary period of growth in world trade and the accompanying shift in the international division of labour, in the period from the Second World War to the beginning of the 1970s. The origins of this expansion and the shift in the international division of labour did not, by and large, originate within the LDCs, but were based upon the

confluence of forces which sustained the long boom in the industrialised market economies. Similarly, possibilities of renewed manufactured export led growth is likely to be dependent upon a new surge in expansion of the international economy.

9. The problems now being faced result from the end of the long post-war boom. The previous experience of sustained interruption of world trade in the 1930s and 1940s provided the context for, if not the origins of, the import-substitution experience characteristic of third world industrialisation. It is possible to pose, grosso modo, one underlying question that must be faced at the global level: will the pursuit of defensive strategies by the industrialised countries contribute further to the deceleration of the long term boom, and is this likely to result in a response from third world countries by necessity, which will ultimately restrict the possibilities for economic expansion in Europe?

SCENARIO I: RENEWED GLOBAL EXPANSION

10. One possible avenue of speculation is to examine the implications of extrapolating trends characteristic of the 1960s over the longer period. The expansion of manufactured exports has made the pattern of world trade increasingly complex. Insofar as regions of the third world expand their exports of manufactures, one might suppose that their economies would begin to more closely resemble those of the industrial centre, and analytical distinctions between LDCs and industrialised economies would become irrelevant. However, for this to become the general case a very considerable extension of the experience of the 1960s would be required. Even if events outside the LDCs

had not caused an interruption to the boom, developments within the LDCs themselves might have undermined the prospects for emulation of the success stories of manufacturing export-led growth.

11. If increasing numbers of LDCs take up the new strategy and in so doing begin to crowd into the more obvious industries, the very real danger exists that they will create within those industries conditions not dissimilar to those of their traditional primary commodity exports - that is, the very success of their policies would tend to swing the terms of trade against them. Indeed, the severity of the impact on the declining sectors in the industrialised sectors reflects this tendency.

12. Industrial growth which results from highly mobile transnational corporations utilising cheap labour may also be vulnerable to its own success - firms which are 'mobile in', could, in the face of rising wages, be 'mobile out'. This would not matter, of course, if in the process an industrial sector had been created which led logically to a higher stage of a product cycle. While this may happen in some cases, in others industrialisation based on particular, limited, labour-intensive steps in the production process may well create 'industrial plantations' which, as with earlier plantation economies, are subject to the dictum that they neither consume what they produce, nor produce what they consume, and are therefore very vulnerable to externally induced shifts in economic circumstances and lack an internally induced basis for expansion, characteristic of a fully articulated economy.

13. Thus, even before 1973, the wisdom of the widespread evangelism promoting manufacturing export-led growth strategies could be questioned. The changing circumstances since 1973 and the increasing caution about the future

growth of manufactured imports evidenced by the need for this working party, has created heightened short term difficulties for many LDCs. However, there is another side to this story, in that the new economic disorder may well force many third world countries to face up to the need for more self-reliant growth strategies and end certain illusions regarding the prospects for trade expansion.

14. Alternatively, to sketch a plausible scenario including a generalised expansion of manufactured exports, with its effects spreading to a much larger number of countries than the relatively limited group which currently provide the bulk of such trade, requires that the nature of the adjustments in the international economy be spelt out. In medium to longer term periods (e.g. 10-20 years), the cumulative impact of expansion of trade under an export-led scenario could be very great. Whereas relatively limited areas of the third world have been involved in (a), very large areas are involved in (c), import substitution industrialisation, and the available industrial capacity is now considerable, while countries already involved in manufactured exporting under (b) have an enormous potential capacity (again, e.g. Brazil and India - in potential comparable with existing industrial giants). We should note a number of points.

a) If significant amounts of labour power from a much larger group of LDCs were to be incorporated into the international trade in manufactures, then not only would the process of displacement of European industries already experiencing competition from LDCs have to continue, but the process would have to extend into a considerable range of industries which are still innocent of such experience.

b) If this were to happen on a viable basis, then the EEC countries would have to find some new source for maintaining their balance of payments position vis-à-vis the rest of the world, including the third world.

c) One way that this could be achieved would be through the expansion of new industrial sectors in Europe to provide the basis for a new division of labour. However, the current international crisis is characterised by the lack of major investment opportunities to fuel a new expansion. The existence of major investment opportunities throughout the long post World War boom made international, intersectoral and inter-regional adjustments that much more easy. Recently the balance of payments between first and third worlds has become increasingly dependent on arms trade, which has the 'virtue' that it does not create competitive capacity! There are also obvious possibilities for expansion in more sophisticated manufactures. Could we envisage the orderly emergence of a new division of labour over the next generation through very high rates of growth in manufactured exports from the LDCs, as experienced during the 1960s?

d) The possibility also exists of a shift in the balance of payments from commodity trade to services - the sort of shift experienced by Britain at a much earlier period. Does such a shift create a source of vulnerability in the developed countries and lower the possibilities of productivity growth in their economies? If this is so, may it not be desirable, in the interests of equalising world income levels?

e) A manufacturing export-led growth scenario implies an ever increasing role for transnational corporations as vehicles for international trade, probably with an increasing proportion of such trade being intra-firm. Indeed, if the industrialised economies were to specialise more and more in

the provision of services, this would be likely to occur as a result of a shift in the location of productive activity within transnational corporations, but across national boundaries. It is not difficult to envisage a world (already familiar in some industries), in which research and development, marketing services, financial organisation and management in general is concentrated at the centre, while manufacturing processes are transferred to the periphery. We are all familiar by now with the phenomena of transnational corporations and it may well be supposed that some of the popular literature has, if anything, tended to exaggerate their importance to date. Would the manufacturing export-led growth scenario imply a massive expansion in intra-firm trade activities, resulting in an increase in the autonomy of transnational enterprises from national policy controls?

15. The necessary contribution of LDCs to such a scenario would be a high degree of acceptance of both the role of transnational corporations and of an increasingly intimate set of economic relationships with the industrialised world. Even if such a scenario were plausible, there would be very considerable differences in the prospects for individual countries - not only as a result of underlying economic (dynamic) comparative advantage, but also because of differing success in creating policy environments (i.e. political regimes) conducive to such a pattern of development.

SCENARIO II: THE RETREAT FROM TRADE EXPANSION

16. The alternative strategy of individual or collective self-reliance or a resurgence of import-substitution industrialisation and of experimentation with more autarkic solutions is a more likely scenario given existing trends

and the likely policy choices of industrialised countries. To describe this as a strategy, however, can be a little misleading. Since the shocks of 1973, combining the effects of the end of the boom and the oil crisis, many third world governments have had to live very much from day to day, even if the 'beverage boom' has eased the balance of payments situation of a number of them in the last two years. The development of a new scenario is more likely to involve the ad hoc reactions of governments to short-term crises.

17. The pursuit of more inward-looking strategies may well involve more radical alternatives and sharp conflicts over commodity policy and the role of foreign investment in particular.

18. We have already suggested some of the implications of such strategies for the industrialised countries. To analyse the real-politik of this new situation it is necessary to look not only at the relationships between Europe and the LDCs, but also at the relationship between Europe, other major trading blocks and the more industrialised parts of the LDCs, in competition with each other within the third world. Such a scenario would imply the need for a more aggressive role by Europe to maintain its relative position compared with existing and potential major competitors within the third world; the same would be true for Europe's competitors. In other words, the more aggressive pursuit of national interest or, more accurately, collective national interest and more systematic organisational conflict with other groupings, is likely to be on the agenda.

19. In such a situation capital is likely to move to maintain markets and

aid and other forms of leverage are likely to be more energetically used to defend trading positions.

20. The renewed global expansion of trade could only be sustained if a means were found for payments between LDCs and industrial countries to be kept in balance - in an overall sense it could only continue if every market lost to an LDC import was compensated for by an export to the LDC. In the context of a more self-reliant strategy likewise any decline in the rate of growth of imports from LDCs would be matched by a decline in the growth of exports, unless there were accelerated capital exports.

THE EFFECT OF POLICY

21. Policies geared to affect relations between the EEC and the LDCs in trade and financial areas will not, in themselves, be a major factor in determining the future behaviour of international trade - this will be mainly determined by the overall economic performance of the industrialised economies.

22. In summary, from the point of view of LDCs themselves neither scenario presents a very desirable prospect. A further line of investigation might involve an exploration of the options open to the governments of the LDCs faced by these apparent options, and economic blocs as potentially powerful as the EEC. In our own discussions we need to address as honestly as possible two questions:

i) How far is there a conflict of interest between the policies the EEC is likely to pursue and third world economic interests? While this question is not explored further here, the preliminary notes above are suggestive that there is a very considerable potential conflict, although there may also be possibilities for resolving such conflicts if economic policies in the larger context (e.g. affecting the overall growth performance of the industrialised economies) are successful.

ii) Where there is a potential conflict of interest, what are the consequences for this study group? Are we to analyse the most effective means of pursuing the EEC interest (or the interests of some part of the EEC), or should we also make explicit an attempt to articulate the LDC interest. (To some degree we must do the latter even if only to expose the potential conflicts which may arise and which might therefore have negative consequences at the political as well as the economic level for the EEC.)

Some Thoughts on the Identification
on Conflict Potentials

1. This is a revised version of the first part of the paper submitted to the group in December, 1977. As announced in the discussion it was tried in the meantime to improve the data basis for the identification of conflict potentials. For this purpose the data on preferential trade with developing countries from 1976 are compared now with the 1973 figures. The comparison, however, is difficult because
 - the 1973 figures are for the EC of the six, only, while the 1976 figures are for the extended community,
 - the signatures of the various trade positions are not always exact as they give a wide range of interpretation and can change within the analyzed years,
 - the role of preferential trade within the total trade of the EC member countries is - with about 5 % in 1973 - not very important,
 - the trade with ACP countries is not included.
2. In spite of this the analysis can give useful additional information for the complex problem of repercussions because the GSP meets the most competitive foreign trade countries of the Third World. It can be

assumed that structural changes in connection with an increasing trade volume due to a higher degree of competitiveness result mainly from the trade relations with these countries. In addition, the GSP contains by the division of the total trade into three groups of more or less sensitive goods a first indicator for repercussions which are to be expected.

3. The analysis of the conflict potential starts from the hypothesis that the difficulties for the European producers grow with the increasing import share of goods under the GSP. Two indicators were used:

$$I_A = \frac{\text{GSP imports of product 1...n}}{\text{total imports of product 1...n}} \times 100$$

$$I_B = \frac{\text{GSP imports 1...n}}{\text{intra EC-imports 1...n}} \times 100$$

The first indicator (I_A) considers the impact of GSP-imports in general while the second one (I_B) reflects the competition between the intra-EC and GSP-trade. Because in the second case GSP-imports are compared with goods produced in the EC this expression is more important under structural aspects.¹

4. The following implicit assumptions were made:
 - The non-sensitive goods do not create important structural repercussions. Their effects are negligible. They are not analyzed, therefore. According to the grouping of the GSP this seems to be logical. However, to avoid misinterpretations also these goods will be checked in a later stage of analysis.

¹ An analysis of figures including the total foreign trade, production and consumption is not possible as the statistics are not comparable.

- Potential conflicts are supposed if $I_A > 5 \%$ and $I_B > 10 \%$. It is assumed that in all countries structural adjustments take place if necessary, without important frictions below this margin. It should be emphasized, however, that these figures are roughly estimated. It is possible that the real conflict margin is to be put much higher.
- If GSP imports are a multiple of the intra-EC-trade it can be presumed that the European production is negligible and structural repercussions will not arise.

5. The analysis for 1973 and 1976 included all sensitive and quasi-sensitive CPG-positions. The positions fulfilling the prerequisites of $I_A > 5 \%$ and $I_B > 10 \%$ are listed in Annex I. According to the last assumption of no. 4 (multiple trade) the following seven groups of imports could be deducted in 1976.

16.5801.0060	
26.5801.0080	carpets knotted
20.4203.0180	hand-guard (gloves)
20.4602.0270	plaitings
21.6704.0270	per's wig
23.4603.0010	ware
43.2401.0010	Virginia-tobacco, raw
44.2006.0010	canned pineapple, not in slices

Three of these positions (carpets, per's wig, ware) were also identified for 1973. The increase till 1976, however, cannot be interpreted as an indicator for structural changes.

The other positions identified as sub-sectors with a conflict potential are generally in line with the well known industries with a high degree of competition from developing countries. In 1976 these are:

Construction électrique et électronique

Fabrication d'instruments de précision, d'optique et similaires

Industrie textile

Industrie du cuir

Industrie des chaussures et de l'habillement

Industrie du bois et du meuble en bois

Industrie du papier et fabrication d'articles en papier; mi imprimerie et édition

Industrie du caoutchouc - transformation des matières plastiques

The analysis for 1973 shows a very similar result. Except of the two last positions all other subsectors were identified, too. But, in addition, four other "weak" sub-sectors are represented

Sport articles and toys

Glass and ceramics industry

Tannery

As a result it can be stated that there is a typical group of industries in both years with only some - slightly changing - products which is confronted to important competition of the DCs. Structural changes due to the intensified relations of

the Third World countries with the western countries may be concentrated in these industries. The following product groups confronted with a high competition are represented in 1973 as well as in 1976.

Articles de voyage etc. en plastiques

Tissus de coton

Ficelles, cordes en chanvre

Huile d'Ylang-Ylang et de Niaouli

Peaux d'autres animaux

Plaques pour constructions, en pâte à papier, en bois défibrés ...

Fleurs etc. artificiels

Ampoules en verre pour récipients isolants

Verrerie d'éclairage

Vis à bois

Couteaux

Couverts en acier non corrosif

Articles de jeux: Cricket et Polo

Parapluies etc.

Postiches

Briques etc., réfractaires

Lampes électriques portatives

Poupées de tout genre

Mouchoirs de pochettes: en tissus

Sacs d'emballage, usagés, en coton

Tissus de soie ou de bourre de soie

It has to be emphasized, however, that in no case an entire industry is "threatened" by this competition but only a small sub-sector, which is normally not very important for the whole economy.

Therefore sub-sectors of other (highly competitive) industries are met, too. In 1976:

Raffinage de pétrole

Industrie des produits minéraux non métalliques

Industrie chimique

Fabrication d'ouvrages en métaux

Construction de machines et de matériel mécanique.

Except of the first position these are the same sub-sectors as in 1973. Instead of "Raffinage de pétrole" two other parts of the petrochemical industry have been identified.

ANNEX I

Code CPG (Branche NACE / CLIO) 1976	C.E.		R.F.A.	
	% des importations de toute origine	% des importations d'origine communautaire	% des importations de toute origine	% des importations d'origine communautaire
10.4202.0020 (441) Articles de voyage etc. en plastiques	6,46	10,25	6,80	10,98
10.6402.0080 (451) Chaussures en plastiques	4,42	11,65	5,42	14,71
14.5509.0060 / 18.5509.0070	3,51	12,62	5,35	16,86
14.5509.0070 (430) / 18.5509.0080 Tissus de coton	5,50	58,83	12,23	155,01
14.5509.0080 (430) / 18.5509.0090 Tissus de coton	3,63	12,76	18,28	148,37
16.5801.0060 (438) Tapis à points noués ou enroulés	24,38	360,28	19,40	20.835,03
16.5904.0070 (439) Ficelles, cordes en chanvre	20,08	49,03	31,41	68,04
20.2710.0020 (140) Huiles légères pour d'autres usages	10,55	14,37	8,78	11,30
20.2810.0050 (251) Anhydride et acides phosphoriques	4,03	7,37	8,93	11,33
20.3301.0140 (256) Huile d'Ylang-Ylang et de Niaoùli	13,29	73,76	4,59	5,39
20.4104.0160 (441) Peaux de caprins	6,00	16,06	4,63	6,75
20.4105.0170 (441) Peaux d'autres animaux	18,93	67,87	29,87	97,93
20.4203.0180 (442 et 453) Gants de protection en cuir	21,88	285,73	36,53	1.371,79
20.4413.0190 (461 et 463) Bois raboté...	6,06	60,38	7,37	97,23
20.4414.0200 (462 et 465) Bois simplement sciés longitudinalement	12,75	28,73	11,81	33,68
20.4424.0230 (465) Utensiles de ménage en bois	12,14	38,56	23,70	155,69
20.4504.0260 (466) Liège aggloméré	4,58	23,53	16,89	44,96
20.4602.270 (466) Matières à tresser tissées à plat ou parallélisées	41,52	564,22	58,27	1.490,16
20.4809.0280 (462 et 471) Plaques pour constructions, en pâte à papier, en bois défibrés...	6,32	22,52	7,80	18,76

20.6702.0290 (495) Fleurs etc. artificiels	29,01	69,12	39,44	110,71
20.6813.0320 (244) Plaques en amiante	10,65	15,63	15,74	23,64
20.7012.0360 (247) Ampoules en verre pour récipients isolants	7,90	15,22	11,13	21,96
20.7014.0370 (247 et 347) Verrerie d'éclairage	6,76	14,08	18,25	65,19
20.7332.0400 (313) Vis à bois	28,76	40,67	41,82	204,22
20.8209.0460 (316) Couteaux	8,83	22,20	7,70	44,50
20.8214.0470 (316) Couverts en acier non corrosif	7,34	29,76	6,44	60,19
20.8441.0500 (323) Machines à couche	5,47	22,75	1,60	8,32
20.8501.0520 (342) Pièces détachées pour moteurs	2,02	2,99	5,67	10,44
20.8518.0550 (342, 344) Condensateurs électriques	3,83	6,64	7,81	20,95
20.8519.0570 (342, 344) Résistances	3,32	5,89	5,42	14,58
20.9009.0620 (373) Appareils à projection fixe	1,67	3,03	8,03	23,54
20.9109.0640 (374) Boîtes de montres	11,77	33,21	8,29	14,00
20.9706.0670 (494) Articles de jeux: Cricket et Polo	7,87	20,16	8,31	22,74
21.6601.0080 (453) Parapluies etc.	15,99	73,42	13,92	75,86
21.6704.0090 (495) Postiches	45,61	479,42	64,94	1.314,33
21.6902.0100 (248) Briques etc., réfractaires	1,22	1,86	5,38	11,70
21.7116.0140 (491) Bijouterie de fantaisie	8,11	18,96	8,07	20,21
21.8510.0200 (347) Lampes électriques portatives	8,75	18,85	12,51	29,08
21.9702.0250 (494) Poupées de tout genre	8,88	39,16	15,79	128,02
21.9703.0260 (494 et 481) Autres jouets	5,26	9,46	7,76	17,65
23.4603.0010 (466) Ouvrages de vaunerie	10,23	138,60	16,49	306,88

24.5505.0010 / 28.5505.0020	2,89	5,76	7,15	10,96
24.5508.0030 (430) Tissus de coton bouclés du genre éponge	15,52	32,65	0	0
24.5810.0080 (439) Broderies	8,71	42,18	0,58	1,36
24.6002.0100 (436) Etoffes de bonneterie	5,67	54,51	18,07	485,54
24.6104.0140 (453) Vêtements de dessous pour femmes en coton	7,08	40,08	1,0	7,59
24.6105.0160 (453) Mouchoirs de pochettes: en tissus autres de coton	13,32	36,80	0,59	1,72
24.6203.0170 (455 et 620) Sacs d'emballage, usagés, en coton	16,15	85,20	7,54	82,77
26.5009.0010 (430) Tissus de soie ou de bourre de soie	15,48	34,70	27,82	65,30
26.5307.0020 (430) Fils de laine peignée	4,26	5,16	8,49	10,53
26.5403.0040 (430) Fils de lin ou de ramie	4,58	5,28	8,35	10,86
26.5801.0080 (438) Tapis à points noués ou enroulés	68,32	1.009,42	75,96	1.585,13
28.5505.0020 (430) Fils de coton	1,27	2,53	7,15	10,96
43.2401.0010 (011) Tabac brut flue cured du type Virginia	23,18	577,99	6,53	340,64
44.2006.0010 (414)	14,82	1.329,67	8,09	1.958,60

Anteil der Präferenzimporte ausgewählter sensibler und quasi-sensibler Warengruppen 1973 (in %)

CPG-Code	an den Gesamtimporten		an den Intra-EG-Importen	
	EG-6	BRD	EG-6	BRD
10 2128270010	2,2	5,4	3,8	8,3
10 1042020030	6,9	11,8	11,0	20,7
10 2046020270	11,3	17,7	63,6	321,9
10 2346030010	8,0	10,9	113,2	353,8
10 2166010080	9,8	7,7	39,0	39,9
10 2167040090	24,0	29,0	264,1	1147,6
10 2169020100	0,9	3,3	1,5	10,9
10 2070140370	2,9	5,4	6,9	25,7
10 2179030170	4,4	8,9	5,3	13,0
10 2185100200	8,5	14,8	18,2	70,7
10 2190050230	2,9	1,5	15,5	154,0
10 2197020250	6,0	6,1	19,1	47,5
10 2197050270	2,1	4,9	5,0	17,5
10 2198150280	1,3	2,4	3,5	72,0
14 1455050020/18 1855050020	3,0	3,1	10,8	15,7
14 1455050030/18 1855050030	1,9	1,7	9,1	12,1
14 1455090070/18 1855090080	5,6	6,8	26,2	50,3
14 1455090080/18 1855090090	4,7	13,2	14,5	44,9
16 1658010060	14,8	4,9	10,8	2490,5
16 2658010080	22,4	14,6	927,6	7358,7
16 1659040070	21,9	37,9	80,0	267,2
16 1659040100	4,7	15,5	7,1	20,2
20 2128560020	2,8	0,0	17,4	0,0
20 2033010140	7,4	0,0	48,1	0,0
20 2041050170	6,1	12,9	20,5	37,5
20 3044272490	8,0	10,9	21,8	30,6
20 2045040260	4,6	8,9	16,2	26,8
20 2048090280	4,7	5,3	11,7	13,2
20 2067020290	13,3	27,6	27,6	82,7
20 2070120360	5,4	8,5	10,6	15,1
20 2073320400	7,5	32,5	9,5	124,5
20 2082090460	3,5	3,6	6,9	15,9
20 2082140470	4,0	1,7	11,9	19,9
20 3090025920	0,5	1,3	1,8	12,4
20 2085190570	2,1	3,2	4,1	10,0
20 3095036530	47,1	34,3	1256,6	330,0
20 2097040661	8,4	23,1	13,5	28,7
20 2097060670	4,8	5,6	12,3	17,7
24 1461030150/28 2861030150	4,0	3,6	25,2	35,7
24 2461050160/28 2861050170	5,0	1,5	13,2	4,0
24 2462030170/28 2862030190	6,0	3,8	34,0	105,0
26 2650090010	6,1	13,8	13,2	32,1

Preliminary

November 1977

INTERNATIONAL INDUSTRIAL RELOCATION
SOME FACTORS OF CHANGE

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INTERNATIONAL INDUSTRIAL RELOCATION; SOME FACTORS OF CHANGE

1) Introduction

In this note some preliminary ideas are formulated regarding future developments in the international location of industrial activities, emphasizing in particular the future relations between industrialized (EEC) and developing countries.

We start by briefly indicating some of the major characteristics of the process of international economic development during the past three decades. Increasing internationalization of production and trade, in particular between the industrialized countries, combined with rapid technological innovation and diffusion are some of the crucial factors in explaining the dynamism of the industrialized countries. However, in the early seventies it became apparent that this model began to show signs of exhaustion and that profound readjustments, both on national and international scale are needed to introduce a new dynamism. This readjustment process will have important implications on the role of the developing countries.

Next, we sketch a "scenario" of a possible structure of future economic growth of the EEC within the international context. This may serve as a frame of reference for analyzing the transfer process of productive activities to low-wage countries in which European industry is involved.

The tendency towards relocation will not be equally strong for all kind of industrial activities. The body of this note consists of a more detailed analysis of the pressure on different kind of industrial activities to be transferred to developing countries.

The position and role in the world economic system of part of the developing world is expected to drastically change in the future, industrial exports becoming a realistic perspective. However, the growth, the structure, the geographical pattern and the costs and benefits of these exports are strongly influenced by future developments in the industrialized countries. That is why the emphasis in this note, is on the latter category of countries.

2) From mono- to multipolarity in international economic relations

The international economic development of the past three decades can be characterized by the following elements:

- an accelerated growth of industrial production in both developed and developing countries (period 1950/52 to 1967/69; annual compound growth rates of industrial production: USA 4.0%, Europe 7.1%, other developed countries 7.9%, developing countries 6.8%, world average 5.9%; source UN: Economic Survey of Europe 1971);
- a increasing degree of homogeneity in the structures of production and consumption in the more developed industrial countries;
- a change in the economic prominence of the different industrial countries, revealing a tendency from mono- to multipolarity in international economic relations (percentage share in world industrial production, in 1950 resp. 1969 of USA 45 resp. 33%, Europe 39 resp. 48%, other developed countries 7 resp. 9%, developing countries 9 resp. 10%; source: see above);
- an intensification of the international division of labour and an higher degree of interdependence between the economies of the industrial countries, mainly based on intra-sectoral specialization;
- an acceleration of the process of centralization and concentration of capital, leading to an increasing superiority of a limited number of large companies on national economic level as well as in the field of international investment and trade. This trend can be observed in the areas of industrial production, of finance and of trade (for example, intra-firm trade within MNC's is already estimated at 45% of total world trade; source: Michalet, ILO);
- an increasing participation of Western capital in the industrialization process of developing countries;

- the emergence of enclave-like export industries in a number of developing countries almost entirely dominated by Western industrial and/or commercial firms. The utilization of cheap local labour forms almost the only link with the national economy;
- an increasing dependency of industrial countries on raw materials imports from developing countries.

The economic problems of the seventies have revealed a large measure of instability in the Western economic system, specifically in the areas of growth, trade, investments, monetary relations, etc.. The recession has made apparent, that in the past a great deal of industrial adjustment has been taking place without causing serious problems (with the exception of regional imbalances, on the other hand it has demonstrated the unavailability of further readjustment. However, frictions created by adjustments in a period of slow economic expansion are much harder to tackle.

Part of the adjustment problems emanate from the increased competition of industrial products from developing countries. However, it would be incorrect to consider the change in the structure of trade between developed and developing countries as the result of a more or less successful industrialization policy on the part of the developing countries. On the contrary, basically it is the outcome of a shift in emphasis in the internationalization process of Western capital.

On the one hand MNC's clearly display a tendency to increase the transfer of specifically their labour intensive production activities to low-wage countries. On the other hand, it is also closely bound-up with a change in the structure of commerce.

The concentration of commercial capital has enabled a number of trading houses (both wholesale and retail trade) to develop a global scanning capacity. This means,

they have developed the capacity to utilize on an international scale the cheapest supply potentials of especially labour intensive consumer goods, and - if necessary - to organize this supply. In addition to having ample marketing experience, they have the means to organize local production in low-wage countries for export purposes, without necessarily using their own capital for productive investments. The resulting imports of industrial goods into developed countries is competitive to such a degree as to leave manufacturers no alternative but to proceed to transfer part of their productive activities to low-wage countries as well.

Precipitating the further analysis somewhat, we would like to state already at this point, that these imports from developing countries are not the real cause of adjustment problems in industrialized countries, notwithstanding claims to the contrary of some of the most affected social groups. The origin lies in the structure of the expansion of the capitalist system of the industrialized countries, in particular the process of internationalization.

3) The structure of future growth and trade; elements of a "scenario"

In as far as the process of relocation of productive activities from developed to developing countries is strongly influenced by developments originating in the industrialized countries, it is necessary to indicate at least some of the major elements related to these developments. However, the ideas formulated in this paragraph are very preliminar indeed. They are based upon a limited number of qualitative assessment elements, and not on a profound analysis.

With these limitations in mind, we think the following trends the most relevant ones:

- industrialized countries will be faced by a considerable lower average economic growth than in the past, one of the main reasons being the absence of new dynamic industries capable of magnetizing the rest of the economy. The break-through of potentially very dynamic industries still encounters serious barriers either of a technological, a financial or a political nature. On the other hand, the consumer demand for certain categories of goods is showing signs of satisfaction. Thus, prospects at the medium term are characterized rather by a further expansion of existing industrial structures than by a drastic and rapid change of these structures;
- in view of the growing homogeneity of production and consumption structures of the industrialized countries, the less spectacular technological progress and the diminished growth, it can be anticipated that mutual trade between developed countries will be less dynamic than in the past. A somewhat more protectionist attitude can be expected, expressed particularly at a sectoral level and in the

form of non-tariff barriers. Direct investments will continue to be instrumental to the penetration of each other's markets, in the course of which the investments stream from Europe and Japan to the USA will increase in significance. On the other hand, trade in manufactures with developing countries is expected to accelerate;

- in the next 10 to 15 years unemployment might become a structural feature of industrialized countries as well (already now, unemployment is considerably higher than official statistics indicate). Economic growth will be relatively slow, technological development will remain of a labour-saving nature. Industry is already expected to diminish its demand for labour. A continuation of the trend to expand labour-intensive productive activities in low-wage countries is to be anticipated, a trend that will be hard to curb in view of the sharpened competition between industrial countries.

The services sector will be incapable of absorbing the available labour adequately; the private sector is expected to increasingly introduce labour-saving methods, the non-private sector is not expected to maintain its rate of expansion of the past in view of governmental budget limitations;

- limited wage rises, coupled with a drop in the growth rate of transfer allowances distributed through the public budget appear to justify the assumption that in future private consumption will show only a modest expansion in industrialized countries;
- to improve growth prospects for the EEC, emphasis will be placed on the expansion of technology-intensive capital goods industry and on the promotion of exports, in particular to developing countries;
- as far as economic relations between industrialized and developing countries are concerned, several tendencies are apparent.

The tendency of the three centre areas to create and re-affirm their economic-geographical spheres of influence is on the increase. Japan is pursuing a consistent and dynamic policy vis-à-vis SE Asia, the EEC directs its efforts particularly to Africa and the Mediterranean, while the USA traditionally claims Latin America as its backyard. This applies to trade treaties, investment streams, etc., and to a similar extent to political and military alliances. However, this tendency is subject to considerable restrictions in view of the mounting mutual competition between the industrial countries. As a matter of fact, neither of the three centres can economically afford to concentrate exclusively on these areas in case this would prove to be detrimental to its own competitive position. In this context, the differences in degree and kind of raw material dependency springs to mind, but also the variations in wage-costs, in particular in as far as these are co-determined by the possibility to import cheap industrial end-products and intermediate products from developing countries. In other words, even disregarding international power politics (also from the socialist countries) a kind of vertical division of the world cannot be envisaged, in spite of tendencies towards regionalism.

Anyhow, the developing world will, to our view, constitute the arena par excellence in which the growing competitiveness of the centre will be exposed. On the other hand, the necessity for industrialized countries to safeguard its raw materials supply might provide a number of producer countries the leverage for following a more independent industrialization strategy. Differences between the various developing countries in terms of economic structures, and levels of living might, however, become more pronounced.

4) Perspectives on industrial relocation

The major argument for the assumption that the tendency towards a relocation of productive activities to developing countries will persist in the future, is that present and expected competitive relations among the industrialized countries - or, rather, among the various internationally competing capital groups - will enforce an intensification of the search for the least expensive possibilities for supply on a global scale. Slowing down this relocation of productive activities to countries with a low-wage level would lead to a disadvantage in the competitive position of the non-internationalizing capital groups, which would be particularly detrimental to industries which export an important part of their production (but not only for these).

Technical, financial and organizational capacities in corporate business - especially, but not exclusively, in MNC's - have been sufficiently developed to permit the actual realization of a further international diffusion of productive activities. This tendency is reinforced by the developing countries themselves, which offer very generous incentives for the establishment of foreign export-oriented industries. In addition, the developing countries are highly interested in an increase in local industrial processing of their exported raw materials, and - more generally - in a higher participation in the world trade in industrial products. One could thus speak of a push and pull effect.

The tendency towards relocation will not be equally strong for all industrial activities. The approach in this paragraph will be primarily to a more detailed level. As a angle of view we choose the nature of the production process, and we will also pay attention to competitive relations - as far as this is possible on this level.

The nature of the production process allows a classification of industries into four categories: processing industry, semi-finals industry, specialized capital goods industry and assembling industry.

It must be observed explicitly that this classification may not necessarily apply to single corporations; on the contrary, it will often run transverse the structures of corporations. In our opinion, a classification such as this fits the reality of the relocation process better than an approach based on a branch or individual firm analysis. One can observe that in many cases there is no relocation of corporations, but rather of certain parts of the production processes of corporations.

The same is true regarding the transfer of branches of industry.

Of particular relevance with respect to competitive relations is the measure to which productive activities have been internationalized, as well as the role played in this by productive c.q. commercial capital.

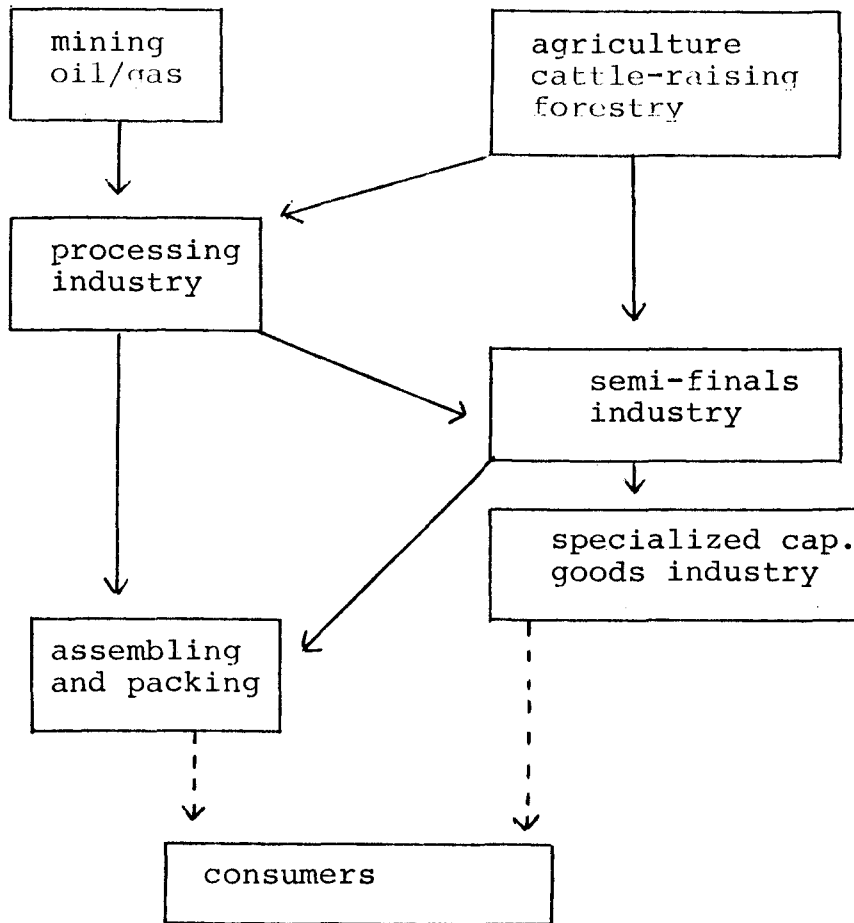
A) Processing industry

In the processing industry raw materials are transformed - by way of a process - into totally different products that serve as an input products for other industries. Therefore these industries are found mainly in the first phases of raw material processing (extraction of metals from ore, chemical processes, generation of electricity, beer-brewing, coffee-roasting, sugar-manufacturing, etc.).

A distinction can be made between processing industries that use extractive resources and those that use agricultural or animal products for raw materials. In the former, economies of scale play a very important part. They generally are capital and technology intensive and little labour intensive.

FIGURE I

Position of types of industry in the production process



Source of Figure: Dr.Ir.K. Westerterp: "De toekomst van de procesindustrie in Nederland", Speech, may 1977

In order to utilize the advantages of producing on a large scale - under pressure of competition - a permanent high level of investment is necessary, which necessity is further reinforced by technological development. As a result, the industry is confronted regularly with problems of over-capacity. Periods of intensive competition alternate with periods of cartel-like cooperative connections. A continuous centralization process takes place.

Production and distribution of especially the more heavy processing industry are dominated by multinational production corporations, and commercial capital hardly plays an independent role.

From the above it follows that differences in wage-levels between countries are not an important factor in deciding the locational pattern. On the ground of relative factor intensity one would expect this capital and technology intensive industry to be pre-eminently suited for developed countries, the more so as the availability of a large home market may be an important basis.

In spite of this, we believe on the ground of various arguments that in the future there will be to a certain extent a relocation towards developing countries.

In the first place we must consider that the strategy of a growing number of developing countries is aimed at accelerating the industrialization process. In a number of countries that have advanced further in establishing import substituting industries, an important internal market begins to develop, which offers ever more possibilities for parts of the processing industry. The effect of this on European processing industry cannot yet be calculated here. For where continuing import substitution will reduce export possibilities, a beginning industrialization in other developing countries may expand these possibilities again.

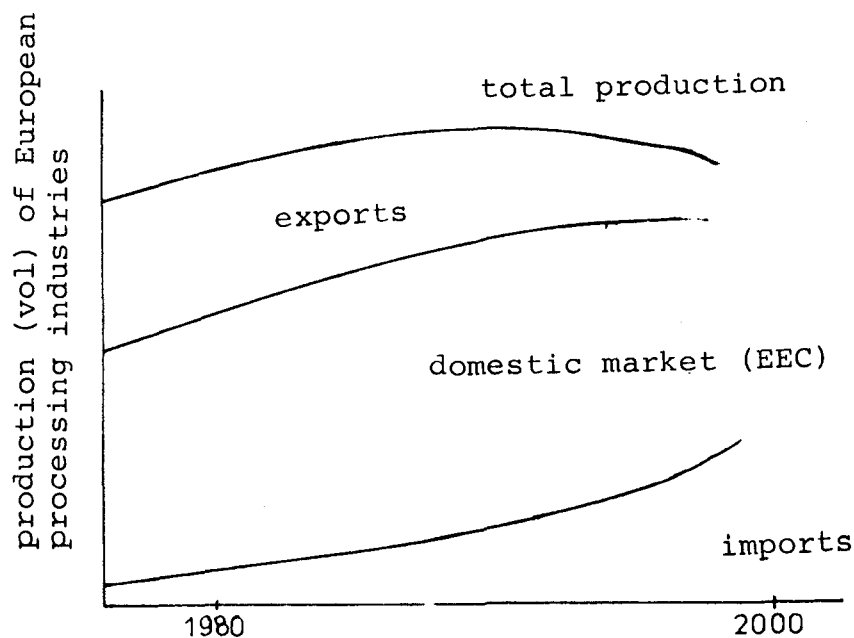
In the second place - and more directly related to the relocation issue - there is a growing pressure from raw materials producing countries to have their exports processed locally. Especially when the possibilities of these countries to form cartels or use other means of power grow, the possibilities for establishing export-oriented processing industries in certain developing countries will increase. In view of the growing scarcity of raw materials,

the industrialized countries might be faced with a structural raise in relative prices. This will afford the producing countries greater possibilities for setting up processing industries which will be to a large extent export-oriented. Already do we observe that a number of developing countries are engaged in the accelerated setting up of industries in the fields of petrochemistry, fertilizers, man-made fibres, iron and steel, etc.. This industrialization takes place in cooperation with Western MNCs, as these still hold an enormous lead in technology and distribution.

We do not expect a very rapid relocation, in the sense of a direct termination of productive activities in the West in order to stimulate their expansion in developing countries. The relocation process will be confined to the margin, i.e., the establishing of new investment projects will be increasingly located in developing countries. The implications of this for production in Europe are represented graphically in Figure II.

FIGURE II

Expected production volume of European processing industry



The fact that the slow-down of industrial growth in Europe will increase the existing capacity problems and thus make it necessary to discard the least remunerative production units has been taken into account in the above. Internationally, this will improve the competitive position of Europe somewhat. There will also be a pressure towards solving the capacity problems through exports and interfering with competing imports by way of market-protecting forms of co-operation. In connection with this we expect that the anti-cartel policy of the EEC will not be too intensive, as a number of these products might be characterized as being of strategic significance for the European economies. Policy will indeed be aimed at not becoming too dependent on imports for the provision of these products.

In other words, there also are factors that will hinder a very fast relocation, and insofar as this relocation occurs, there will be an attempt to direct it to territories which are within the direct economic and political sphere of influence of Europe.

In processing industries we often deal with large investment projects - in view of the importance of the economies of scale. This constitutes an additional argument to be selective in relocation because of the great economic and political risks.

In recapitulation, one can assume that the effects of relocation in terms of production and trade will in the next 10 to 15 years emerge only little by little, and will manifest themselves after that time in a more exponential way.

The situation in the light processing industries (such as food processing, paint industry, filling-plants, etc.) cannot be fully compared with this. Not only do economies of scale play a less decisive role and is the technology element less important, but a major difference is also that merchant capital forms a more independent factor. This type of processing industry fits into the process of import sub-

stituting industrialization in developing countries, while for parts there do also exist possibilities for exports to the markets of industrialized countries. In the latter, especially developed countries' merchant capital will be actively involved, for example in the field of food processing.

The developments for heavy and light processing industries sketched above have consequences for the structure of the processing industries in Europe. The heavy industry will more and more take to products and processes of a higher complexity of both the technology involved and the labour required; and will further specialize in a much more efficient use of raw materials. The rising prices of materials and energy, together with higher environmental demands, will necessitate new material- and energy saving technological developments (a higher degree of chemical integration, substitution of certain raw materials, recycling materials, etc.; among process improvements we may mention electrochemistry, combustion technology, membrane technology, biotechnology, powder technology, catalysis, etc.).

For the lighter processing industry we expect a development towards the production of goods with a lower price and a higher income elasticity, for which aggressive marketing will be important.

B) Semi-finals industry

The semi-finals industry processes elementary industrial outputs into intermediate products that serve as input for other industries. Examples are fabrics, leather, fur, plywood, synthetic products, etc.. This type of industry covers a vast area, which makes it difficult to present other than general statements about the tendency of relocation towards developing countries. As for relative factor intensity it occupies an intermediate

position. It is neither markedly labour intensive (like the assembling industry), nor capital intensive (like the processing industry), nor technology intensive (like the specialized capital goods industry).

For two reasons we expect in the future a relocation of part of this industry to developing countries. In the first place, it concerns activities which rather quickly qualify for local production in countries which follow a strategy of import substituting industrialization. This will especially have an impact on the export possibilities of Europe. In the second place we expect a relocation of those parts of the semi-finals industry that - while not highly concentrated themselves - are clenched in between monopolistic input and output industries. This category will not be able to pass on raises in costs originating either in the input side or in the manufacturing process to their clients. As far as the advantages of the low costs of labour in developing countries compensate the disadvantages of relocation, part of the semi-finals industry will begin producing in developing countries for markets in the industrialized countries.

Since in the full range of the semi-finals industry the substitution effect is probably more important quantitatively than the relocation effect, we expect for the next 10 to 15 years a gradual but limited shift in the structure of production and trade.

C) Specialized capital goods industry

In the specialized capital goods industries machines are produced to measure or in small series for other industries and corporations. It concerns especially the production of investment goods such as apparatuses for the processing industry, packing and assembly machines, other specialized machinery, etc.. This industry is not so much

labour intensive as capital and research intensive although specific parts of this industry may be also labour intensive (e.g. the construction part). The branches in which these industries operate are often structured hierarchically. They are dominated by a number of large corporations which in their production make an intensive use of a great number of small to medium large suppliers. The latter also perform a bufferfunction to absorb the trade cycles, which are rather strong for these industries. Merchant capital hardly plays an independent role.

The contribution of the developing countries to the world production of capital goods has up to now been marginal. For the future we expect a limited increase of their relative contribution, especially on the ground of the prospects with regard to the industrialization process in developing countries, an increase which will be realized through import substitution, particularly in those countries that dispose of a large internal market and have already made progress in the industrialization process (e.g., textile machines). Fundamental changes in the international structure of production and trade in this type of goods by this limited increase are not expected to occur, due to the enormous technological lead of Western industry. Important exports in this field from developing to industrialized countries are therefore not foreseeable in the near future.

In our opinion, the most important shifts will occur within Europe itself. The less favourable growth prospects, together with the need for high expenses on research and development will necessitate a process of increasing concentration. The pressure for this is raised by the existing capacity problems. Intensifying cooperation between corporations in this industry is facilitated by the fact that there is hardly any independent merchant capital; it is hindered, however, by the occurrence of national con-

traditions within the EEC (e.g., ship-building). These contradictions are accentuated by the circumstance that most national administrations of the EEC have given priority in their industrial policies to research intensive industries. As a consequence, the problems within this industry will have to be solved on a supra-national level.

D) Assembling industry

This industry uses intermediate products and components for the production of finished articles, which are transmitted through various trade channels to individual consumers. This mostly concerns consumer goods (like automobiles, television sets, radios, refrigerators, soft drinks, ready-made clothing, etc.), although the production of certain capital goods (e.g., trucks, simple standardized machines, etc.) may also be put in this category. The industry often is very labour intensive, relatively little capital intensive and little to moderately research intensive.

Among the assembling industries we find branches which are little concentrated, but in which merchant capital plays an important role (e.g., clothing, foot-wear, furniture) along with branches which are dominated by multinational production corporations (e.g., electronics, automobiles). The first category is characterized by a very high degree of labour intensity, using preferably low-skilled labour. Technological development is rather slow and so is the increase in labour productivity. Economies of scale are of limited significance as far as productive activities are concerned. Entry into the sector is relatively easy. The number of firms is large and many are family owned. Management is often rather poor. Wage levels are below average industrial wages, making it difficult to obtain an adequate and sufficient labour supply.

In addition, these industries are confronted with an increasing degree of monopolization on the output side. The retail trade has gone through a process of concentration and integration, and purchases from these industries are made by an ever decreasing number of decision centres. As consumption patterns were becoming more homogenized, retail trade organizations were able to introduce a systematic policy of merchandizing. Once their needs were defined, price became the essential criterion in selecting suppliers on an international scale. Through direct investments (including joint ventures) or through commercial sub-contracting (including sometimes technical assistance contracts) an important shift in the pattern of international trade in this kind of product was originated. International competition becoming stronger, the surviving industries had no alternative but internationalize their production also, either by sub-contracting work to firms abroad or by transferring parts of their productive activities to low-wage countries by means of direct investment.

It is particularly in this type of assembling industries that a major shift in the international division of labour between industrialized and developing countries has occurred, and it can be expected that this shift will persist in the future, in particular for those kinds of products that are not very susceptible to fashion or delivery time. In other words, in our opinion the developing countries have a reasonable chance to set up export production with local capital. It must be observed, however, that these industries are very unstable due to the high degree of dependence on both the internationally operating merchant capital, and the trade policies of importing industrialized countries.

Under present conditions, the establishment of this kind of industrial activities in developing countries can hardly be considered as a genuine contribution to development.

For assembling industries that are dominated by multinational production corporations the relocation process is well under way. The instability is somewhat less intense than for industries dominated by merchant capital, as the MNCs set up and spread production more systematically. Pursuing an European policy aimed at slowing down relocation of this type of industry is very hard if not impossible, in view of the international character and the power of the MNCs.

The above considerations can be summarized as follows:

Perspectives of relocation of industries to developing countries

Industries	factor intensities				relocation expectance
	labour	capital	techn.	natural resources	
Assembling	+	-	-/o	o	+
Semi finals	o	o	o	o	o
Specialized cap. goods	o	o/+	+	-	-
Processing	-	+	+	+	+

+ high
o intermediate
- low

5) Concluding remarks

The above presents no more than a very first approach of possible changes in the structure of international production and trade in industrial products. The main agents of change are multinational production firms, internationally operating trading firms, and governments in both industrial and developing countries. The direction of change is determined by such factors as technological development, competitive relations, policies of governments, etc..

In Figures III and IV, the major factors of change are presented graphically: Figure III applying to an assembling industry; Figure IV to a processing industry.

FIGURE II THE RELOCATION PROCESS OF THE CLOTHING INDUSTRY

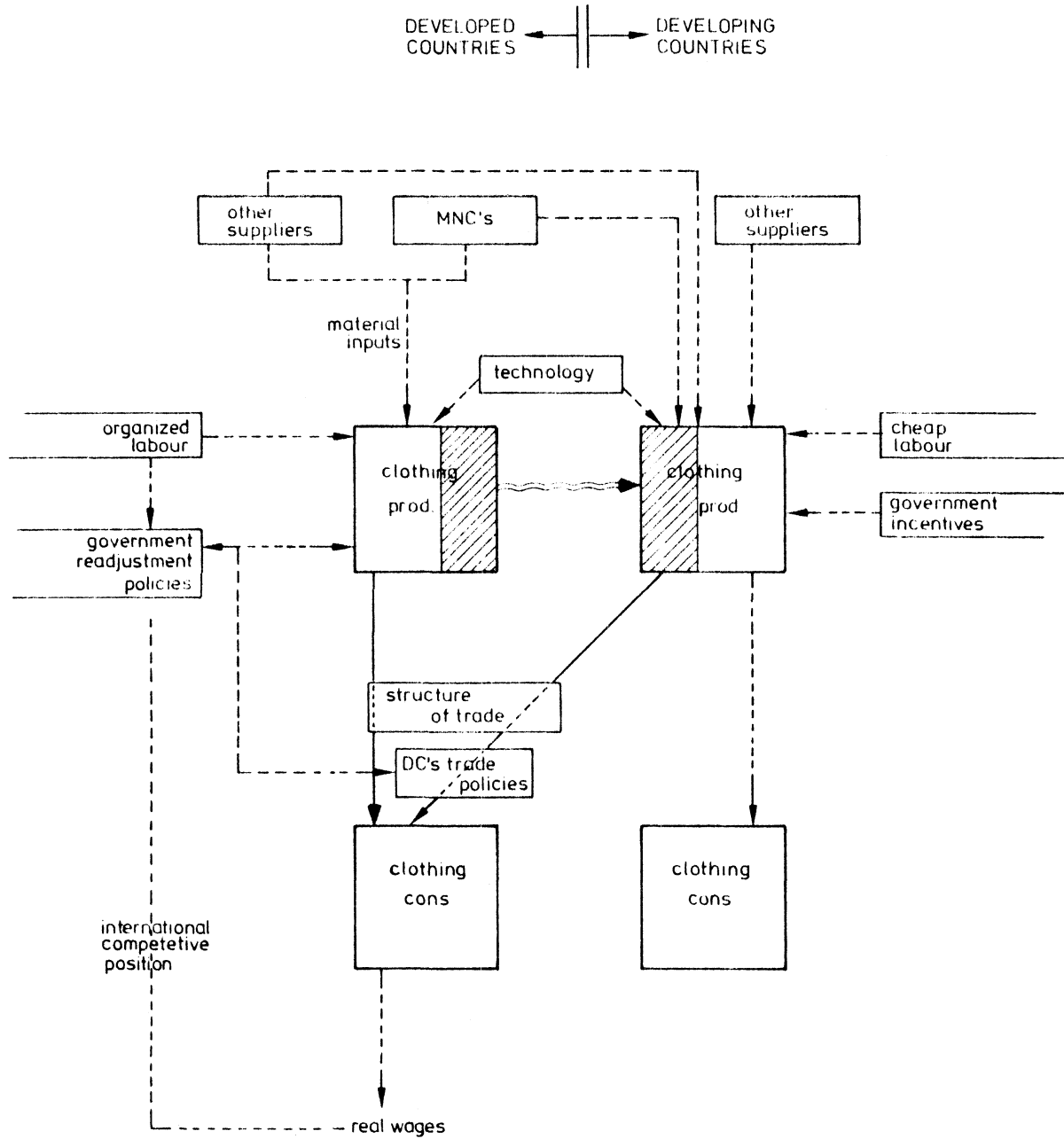
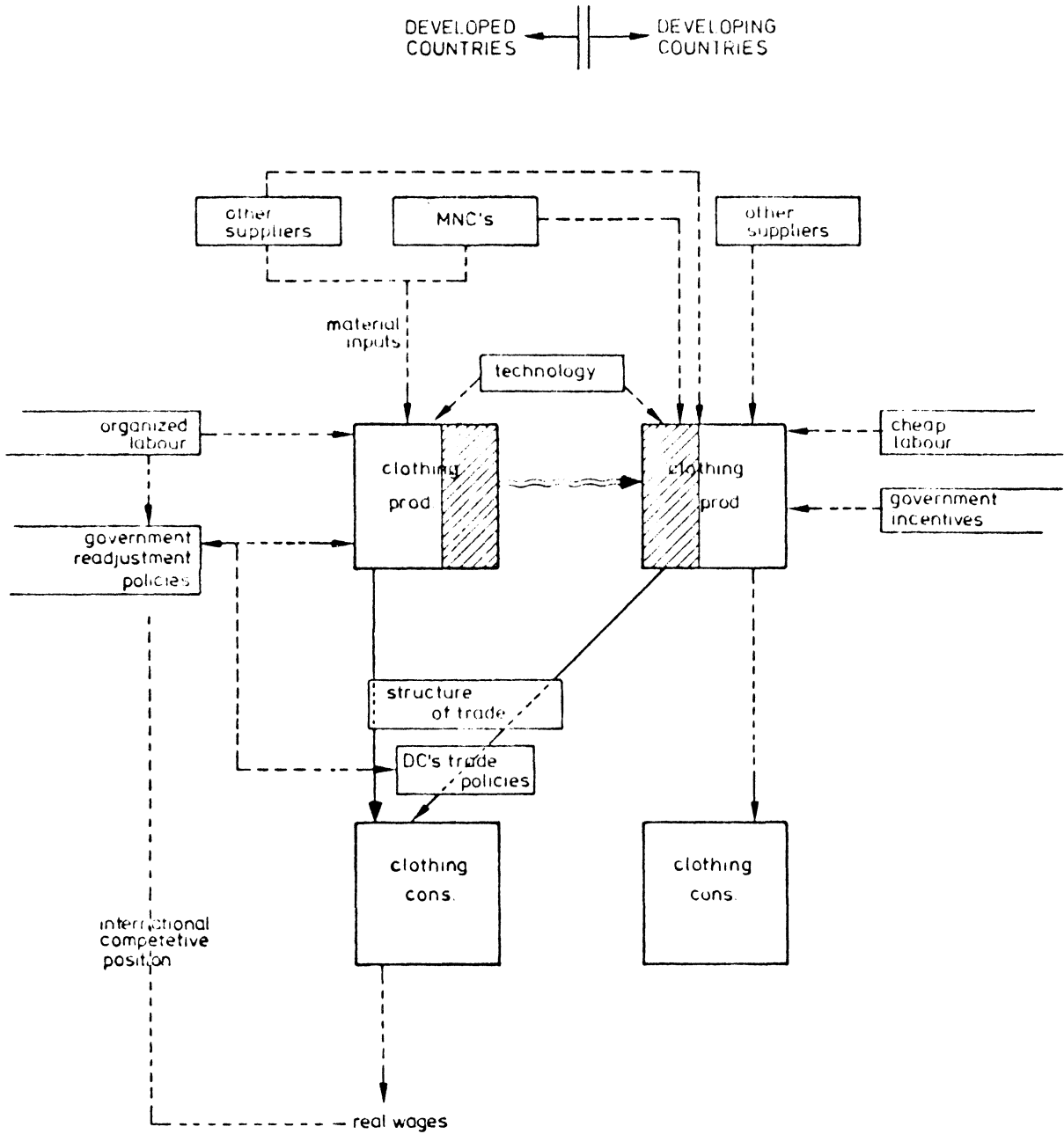


FIGURE II THE RELOCATION PROCESS OF THE CLOTHING INDUSTRY





L'extension des échanges PD/PVD et l'emploi industriel dans les PD, en particulier dans les pays de la C.E.E.

V. Van Rompuy
Professeur K.U. Leuven

Les sections principales de cette note traitent des répercussions pour l'emploi industriel dans les pays développés (PD) de l'extension des échanges entre ces pays et les pays en voie de développement (PVD) (1), ainsi que de l'orientation de la politique à suivre en cette matière (sections 2 et 3). Cette partie est précédée de quelques considérations concernant les conséquences générales de cette évolution du commerce international (section 1) et suivie de certaines observations au sujet des méthodes de travail utilisées dans la recherche scientifique portant sur le phénomène en question (section 4).

1. Conséquences générales.

Les coûts et les bénéfices d'une extension des échanges PD/PVD pour l'évolution interne des PD peuvent être résumés comme suit :

(1) En dehors des modifications des courants commerciaux la nouvelle division géographique du travail entre les PVD et les PD donne également lieu notamment à des déplacements ou transferts d'activités industrielles. Dans les études consultées l'analyse de l'incidence des phénomènes cités sur l'emploi est limitée aux changements dans les importations et les exportations des biens industriels.

- en matière de bénéfices .

- . Avantages en ce qui concerne l'écoulement des produits et l'augmentation de la productivité (économies d'échelle, spécialisation accrue dans les branches d'activité ayant une productivité élevée).

Les PVD disposent de plus de devises pour acheter des biens et des services dans les PD (surtout des biens de capitaux, technologie, gestion, formation).

- . Les salaires et les profits dans certains secteurs, ainsi que dans l'ensemble le revenu national réel augmentent. Ces avantages ne sont obtenus qu'après une restructuration des activités. Après la nouvelle affectation des facteurs de production, la stabilité d'emploi s'accroît et les conditions de travail peuvent également s'améliorer.

- . Avantages pour les consommateurs qui disposent d'une offre plus diversifiée de produits et qui peuvent acheter les mêmes produits à des prix plus bas.

L'accroissement du revenu réel donne également lieu à une demande additionnelle pour d'autres produits.

(Dans les PVD l'amélioration se manifeste surtout dans un premier stade par l'accroissement du produit intérieur réel, l'apport des devises et l'élargissement d'emploi salarié).

- en matière de coûts.

- . Dépendance accrue pour ce qui est du prix et de la qualité des produits, ainsi que pour la sécurité d'approvisionnement.

- . Pertes d'emplois, de revenus et de capitaux dans les branches d'activités qui sont exposées aux importations en provenance des PVD.

. Coûts de l'aide à la reconversion sociale et à la restructuration économique. La mobilité et la mutation des facteurs de production impliqués demandent du temps et occasionnent des coûts. On doit tenir compte d'un certain degré de chômage et prendre en considération :

- a) la perte de salaires, ainsi que la distribution temporaire de revenus de remplacement;
- b) les coûts de formation et de recyclage et dans une certaine mesure des déplacements géographiques de forces de travail et d'usines avec ce que cela implique pour l'infrastructure technique, sociale, intellectuelle;
- c) l'octroi d'une pension anticipée à certains travailleurs licenciés.

Etant donné que les travailleurs mis en chômage appartiennent dans une mesure assez considérable à la catégorie des non ou peu qualifiés la reconversion sociale sera lente, difficile et parfois impossible. Les avantages et les inconvénients ne sont pas répartis d'une façon proportionnelle entre les agents économiques (consommateurs, producteurs, travailleurs). Dès lors la distribution des revenus et des fortunes est également touchée.

La plupart des coûts peuvent être repérés d'une façon plus exacte. Les inconvénients sont assez bien localisés dans la population et ressentis plus vite et plus directement. Les personnes touchées sont bien organisées et ont une influence politique parfois considérable. Dans une large mesure, les coûts sont plus concentrés dans le temps et ont un caractère temporaire. Par contre les avantages pour les PD sont largement dispersés dans la population (consommateurs) et sont assez peu ressentis directement, aussi bien par les travailleurs que par les chefs d'entreprises. L'ampleur quantitative ne peut être déterminée que d'une façon très approximative. On a cependant l'impression qu'en

longue période ils ont un caractère substantiel et plus durable que les inconvénients.

2. Commentaire sur certaines études concernant l'incidence des échanges accrus avec les PVD sur l'emploi dans l'industrie des PD.

- L'emploi dans l'industrie manufacturière des PD dépend d'un certain nombre de variables parmi lesquelles l'importation provenant des PVD est loin d'être le plus important. Les modifications de la demande intérieure et extérieure, le progrès technique ainsi que l'évolution de la productivité économique, des importations provenant des autres PD ainsi que des pays de l'Est et de la politique économique sont les facteurs les plus déterminants.
- L'extension des échanges avec les PVD ne résulte pas exclusivement de la libéralisation des importations dans les PD. Bien qu'à cet égard la politique poursuivie par les PD en matière du commerce extérieur revête une importance très grande, d'autres facteurs comme par exemple l'industrialisation autonome des PVD, due aux initiatives intérieures ou extérieures, ont un impact considérable et définitif. Le nombre d'études concernant les problèmes en question publiées dans les pays membres de la C.E. n'est pas très élevé (v. Bibliographie - section 5). Il est probable que dans certains pays existent des travaux non-publiés ou que des recherches sont encore en cours d'exécution. Il serait intéressant d'encourager les contacts entre les chercheurs nationaux afin de confronter les vues sur les méthodes, les statistiques et les résultats. Une recherche au niveau de la C.E. s'indique.

- Etant donné la complexité des problèmes traités les travaux de recherche sont effectués dans le cadre d'un grand nombre d'hypothèses simplificatrices. En outre le matériel statistique disponible est parfois déficient ou se rapporte à des périodes trop lointaines. Dès lors certains commentateurs arrivent à la conclusion que les résultats obtenus sont peu ou même pas fiables.

Quoi qu'il en soit la diversité des méthodes utilisées empêche ou rend en tous cas difficile la comparaison des résultats obtenus pour les divers pays et même pour un pays déterminé.

D'ailleurs tous les auteurs sont d'avis qu'il ne faut pas accorder une importance trop grande au niveau absolu des résultats obtenus. La signification réside surtout dans le fait qu'ils donnent une idée de l'orientation générale des changements impliqués, ainsi qu'un ordre de grandeur très approximatif permettant de mieux saisir l'importance relative.

- Entre 1970 et 1976 la répercussion nette et globale n'a pas été considérable.

Pendant cette période en France le nombre d'emplois industriels affectés à la production de l'exportation destinée aux PVD a cru plus rapidement que celui des emplois représentatifs des importations en provenance des PVD.

Dans les autres pays de la C.E.E. pour lesquels des données sont disponibles (e.a. R.F. Allem., Belgique, Pays-Bas) le solde a été légèrement négatif. Dans tous les pays, y compris la France, certains secteurs industriels, notamment cuir, chaussures, textile, vêtement, bois, meubles ont enregistré une perte nette d'emplois parfois assez considérable.

- En ce qui concerne l'avenir certains auteurs font la remarque que la division internationale du travail avec les PVD

ne se trouve que dans un stade initial. La libéralisation du commerce, ainsi que l'industrialisation des PVD ont à peine commencé.

- La plupart des études arrivent à la conclusion que l'incidence nette et globale de l'extension des échanges PD/PVD sur l'emploi sera probablement négative pour les PD, tout au moins dans un premier stade et dans l'hypothèse que la durée du travail reste constante. Les calculs au sujet de la répercussion globale nette, comparant la création d'emplois qui résulte d'un accroissement des exportations avec l'effet inverse provoqué par les importations additionnelles, partent de l'hypothèse qu'une mobilité suffisante des facteurs de production aussi bien inter- et extrasectorielle, qu'entre les régions, existe ou a eu lieu (moyenne échéance). Dans la République Fédérale Allemande la perte nette d'emplois industriels serait pendant la période de projection 1973-85 de l'ordre de 5,7% du nombre d'emplois enregistrés en 1974 (environ 0,4% par an). En France les échanges de produits industriels avec les PVD pourraient infléchir entre 1976 et 1985 l'emploi industriel dans une fourchette de -5 et +5% (environ \pm 0,4% par an) selon que l'on prévoit une évolution très défavorable ou favorable. Cependant le besoin de reconversion sociale se mesure plutôt par le nombre d'emplois supprimés suite à l'augmentation des importations provenant des PVD. En France ce montant s'évalue entre 3 et 7% des effectifs 1976, ce qui représente une pression annuelle de reclassement d'environ 0,3 à 0,6% des effectifs de l'industrie. Le chiffre correspondant pour la R.F.A. s'élève à 10.7% (environ 0,7% par an). En comparaison avec la période 1962-75 la perte pendant la période 1975-85 serait six fois plus élevée.

- Tous les auteurs des études consultés soulignent qu'en matière d'emploi les problèmes réels proviennent avant tout de la concentration des répercussions négatives sur certaines catégories de travailleurs, d'entreprises ou de régions.

- L'information statistique disponible est insuffisamment affinée pour atteindre le niveau qu'exigerait une compréhension détaillée du problème posé, ainsi qu'une approche concrète des problèmes de restructuration.
Plus précisément, cela signifie qu'une branche d'industrie qui selon les études réalisés sur la base des données statistiques disponibles se trouve dans une situation de pression sous l'effet des importations provenant des PD, n'est pas nécessairement en difficulté dans tous ses sous-secteurs ou produits. Inversement, une évolution positive dans un secteur ne veut pas dire que certains problèmes ne se posent pas pour certaines entreprises à l'intérieur même de cette branche d'activité.
Il est évident que les effets sont et seront différents selon les structures existantes.
En général l'effet négatif de l'importation accrue provenant des PVD est plus réduit dans les pays, les régions ou les entreprises ayant une valeur ajoutée par unité de travail relativement élevée.
Au fur et à mesure que l'éventail des importations s'étend à des produits d'intensité de travail moins élevée -ce qui est déjà le cas pendant les dernières années- des effets négatifs sur l'emploi seront relativement plus réduits et du point de vue géographique moins concentrés.

- Les caractéristiques des travailleurs, susceptibles de perdre en premier lieu leur emploi actuel, sont les suivantes : main d'oeuvre peu qualifiée, salaire relativement bas, main d'oeuvre féminine et manuelle dans l'industrie

manufacturière réalisant une valeur ajoutée par unité de travail assez basse, main d'oeuvre âgée, certains immigrants et jeunes.

- Egalement sous réserve de ce qui a été dit ci-haut le chômage affectera en ordre principal certains groupes de produits déterminés, dont la fabrication est parfois concentrée dans certaines régions à faible développement économique et souffrant déjà d'un chômage élevé.

- En ce qui concerne les secteurs les plus vulnérables mentionnés dans les études sur la base des degrés d'agrégation conformes à la convention statistique les mêmes dénominations reviennent pour chaque pays : p.ex. chaussure, cuir, textile, vêtement.
Souvent sont mentionnés également : bois et meubles, jouets et parfois (notamment pour la R.F.A.) certaines branches d'activités fabriquant des biens d'équipement comme l'industrie électrotechnique, l'optique, la mécanique fine, ainsi que les instruments de musique, la céramique fine, la fibre artificielle, le verre. Pour les branches d'activité les plus sensibles dont les emplois menacés sont le plus nombreux, la contrainte annuelle au reclassement se pose en R.F.A. pour 1 à 5% de l'emploi 1974. Les chiffres correspondant pour la France s'élèvent à 0,7 à 3% des effectifs 1975 si l'on admet l'hypothèse d'une évolution très défavorable et atteignent un niveau insignifiant dans une hypothèse d'évolution très favorable.
Comme l'étude française le constate le développement des échanges commerciaux entre les PVD et les PD de la C.E. ne constitue pas une grave menace globale sur l'emploi industriel, mais ils se posent néanmoins d'ardus problèmes d'adaptation aux travailleurs, aux chefs d'entreprises et aux pouvoirs publics.

- Le climat général dépressif actuel ainsi que l'intensification de la concurrence sur le marché mondial, aussi entre pays industrialisés, rend chaque effort supplémentaire en matière de restructuration économique et de reconversion sociale particulièrement difficile. L'ampleur du chômage actuel réduit considérablement la mobilité professionnelle et régionale, ceci renforce la résistance contre de nouvelles libéralisations du commerce et conduit à des exigences de nature protectionniste.

3. Quelques conclusions pour la politique à suivre.

- La résistance contre des mesures tendant à l'extension des échanges avec les PD provient de la concentration sectorielle et géographique des répercussions négatives notamment sur l'emploi, ainsi que du climat économique général dépressif. Ces deux facteurs constituent des obstacles importants pour le développement des relations économiques entre les PVD et les pays-membres de la CEE.
- Dans chaque pays un certain nombre d'organisations professionnelles d'employeurs et de travailleurs et de certaines autorités régionales craignent des importations accrues; les partisans se trouvent dans les milieux des industries nationales exportatrices et d'importateurs et d'entreprises multinationales.
- Etant donné que le solde en termes de croissance du revenu réel dans les PD sera positif il est équitable et indiqué que la communauté aide les personnes et les entreprises désavantagées en soutenant leurs efforts d'adaptation et en procurant aux travailleurs licenciés un revenu de remplacement adéquat.

- Un climat économique et social facilitant l'ouverture des marchés des PD aux produits provenant des PVD nécessite un rétablissement d'un taux convenable de croissance du PNB dans les PD et une nette amélioration de la situation en matière d'emploi.
En outre, il est indispensable de mettre en place, tant au niveau national, qu'au niveau de la C.E. :
 - a) un système d'indicateurs signalant à temps aux autorités responsables du monde politique, industriel et syndical, les changements structurels déjà en cours et en perspectives;
 - b) les instruments d'une politique de restructuration économique et de reconversion sociale.

- Selon les cas, la politique d'adaptation doit concerner les groupes de travailleurs, les entreprises, les secteurs et les régions.

- Cette politique d'ajustement ne doit pas nécessairement être conçue exclusivement en fonction des problèmes causés par les relations avec les PVD, mais dans son élaboration et son application il faut explicitement tenir compte de cette dimension nouvelle.

- Dans le cadre d'une politique de restructuration et de reconversion le facteur temps revêt une importance capitale. Ces adaptations structurelles et fondamentales se font de par leur nature d'une façon difficile et progressive. Le rythme d'adaptation imposé, p.ex. par la libéralisation des échanges, doit être ferme, mais raisonnable et à la mesure des personnes et institutions concernées. C'est à ce prix qu'une telle politique peut être acceptable et acceptée, et dès lors être efficace et possible.

4. Quelques observations au sujet des méthodes de travail utilisées par les chercheurs.

1. Plusieurs méthodes ont été utilisées.

Exemples :

- a. Analyse ex post de l'évolution des échanges entre PD et PVD pendant une période allant de 5 à 10 années (France 1970-76, R.F.A. 1968-74, Pays-Bas 1970-74) (Bibl. (1), (2), (9)).
Calcul du trend en fonction du temps et extrapolation de ce trend dans diverses hypothèses (mécanique, favorable, défavorable). Estimations d'intervall (France 1978-85, R.F.A. 1973-85).
Application de coefficients d'emploi. Résultats au niveau national, sectoriel et régional. Bibl. (2), (3), (9).
- b. Pour une année déterminée l'hypothèse d'une augmentation équivalente des importations et des exportations concurrentielles de produits industriels des PD en rapport avec les PVD. Calcul des effets (directs et indirects) sur la production intérieure à l'aide d'un tableau input-output. Application de coefficients d'emploi. Bibl. (1), (8), (5) à (7), (13), (14).
- c. La méthode b. est appliquée aux secteurs sensibles et est complétée par une estimation de l'augmentation probable des importations et des exportations (R.F.A., 1976-80) à l'aide d'une projection du trend pour un passé adéquat (1972-75) Bibl. (5) et (6).
- d. Après réduction d'un modèle assez simple, les changements dans l'emploi industriel sont supposés être une fonction de quatre variables dont deux exercent une

influence positive : les changements dans la consommation apparente et intérieure et dans les exportations (destinées aux PVD) et deux autres ont une incidence négative : les importations (provenant des PVD) et la productivité du travail. Le calcul a été effectué pour la Grande-Bretagne se rapportant à la période 1970-75. Bibl. (10), ainsi que (12) pour les Etats-Unis.

D'autres méthodes sont possibles, p.ex. concernant la méthode c. : prévision des importations et des exportations, pas à l'aide d'un trend en fonction du temps, mais à l'aide de fonctions économétriques d'importations et d'exportations.

2. Il est inhérent à n'importe quelle méthode scientifique de reposer sur des hypothèses de travail simplifiant le problème.

En l'occurrence il s'agit selon les techniques employées :

(a) . absence d'une théorie explicite; les extrapolations partent de l'hypothèse que dans le futur tout se passera comme dans le passé;

. les coefficients d'emploi se rapportant aux produits exportés vers les PVD sont identiques à ceux applicables aux produits importés provenant des PVD;

. les importations accrues provenant des PVD remplacent automatiquement une production intérieure équivalente et les emplois correspondants; on fait abstraction de l'importation d'autres pays, de l'adaptation de la production intérieure, de la modification des prix relatifs, de la différence entre les prix unitaires;

- . difficultés en rapport avec l'expression à prix constants (déflation adéquate de tous les variables concernés , la détermination des conséquences dynamiques résultant des changements dans les prix relatifs);
 - . fixité de la durée de travail.
- (b) . hypothèses statiques de la méthode 1/0
- prix relatifs;
 - coefficients de production;
 - structure des importations et des exportations;
 - coefficient d'emplois (parfois corrigés).
- . dans une économie ouverte l'importation provenant des PVD ne remplace pas toujours la production intérieure;
- . l'interdépendance intra- et intersectorielle disparaît. Interrelation entre prix, demande-consommation, production.
Une unité de valeur additionnelle des PVD supprime une unité de valeur de production du même produit ainsi que l'emploi correspondant dans les PD.
Par cette hypothèse il est fait abstraction de la différence entre le prix à l'importation et le prix intérieur, ainsi que de l'incidence de l'importation à des prix plus bas sur les prix intérieurs et la demande;
- . les coefficients d'emplois sont identiques pour les produits importés et exportés;
- . les résultats nets font abstraction du problème de réajustement (mobilité sectorielle et régionale des facteurs de production);

- . absence de projections réalistes des importations et des exportations.

(c) V. (a) et (b).

(d) . les variables explicatifs ne dépendent pas l'une de l'autre;

- . on n'a pas pris en considération des facteurs comme le changement des prix relatifs, les effets indirects et la politique économique;

. les stocks sont constants;

. la productivité du travail est exprimée par la relation entre la production (exprimée en valeur à prix constants) et le nombre d'hommes-années;

. l'incidence de l'importation et de l'exportation a été traitée par l'incidence nette; une unité de valeur additionnelle d'importations et d'exportations ont avec un signe opposé, la même répercussion sur l'emploi et le reclassement est terminé.

3. Tous les travaux font mention des difficultés suivantes :

- données statistiques parfois dépassées, surtout les tableaux input-output et les coefficients d'emploi;
- statistiques sectorielles trop globales;
- manque de coordination au sujet de la subdivision sectorielle p.ex. entre les statistiques de la production (ev. input-output), du commerce international et l'emploi.

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Source of Employment Displacement in UK Industries Competing with
lde Imports

Objectives

The exercise below is an elaboration of work earlier done in the ODI Review 2 article seeking to apply the same methodology to a wider range of industries. Essentially it seeks to define the separate contribution to job displacement at industry level, of trade (and, within that, trade with ldes) technological change and demand changes. It would not be correct to infer that these influences are separate "causes" of employment loss since they are inter-related and, moreover, industries are inter-related through input-output linkages, but they do give some indication of the immediate source of job displacement. Even with this limitation, and with the further limitation that there are major inconsistencies in UK published data on employment, output and trade at industry level, the results give us something more to work on than the casual empiricism and hasty logic often used in public debate (employment is falling, cheap imports are "flooding in" ergo cheap imports are responsible for employment loss, ergo trade protection will restore employment). The author has subsequently received some reassurance from seeing the same methodology used in a Brookings study (Charles Frank: Foreign Trade and Domestic Aid). The attached figures are, however, very provisional, there having been no time to check for computational let alone published data error, and should be treated with reserve.

Methodology

The essence of the methodology is the use of two identity relationships:

$$O = C + X - M \quad (i)$$

$$P = \frac{O}{E} \quad (ii)$$

Where O is output, C is apparent domestic consumption, X and M are exports and imports, P is labour productivity and E is employment. By transformation

and differentiation

$$\frac{dE}{dK} = \frac{1}{P} \frac{dC}{dt} + \frac{1}{P} \frac{dX}{dt} - \frac{1}{P} \frac{dM}{dt} - 0 \cdot \frac{dP}{dt}$$

when changes

are small $E_{t+1} - E_t = \frac{E_t}{O_t} (C_{t+1} - C_t) + \frac{E_t}{O_t} (X_{t+1} - X_t) - \frac{E_t}{C_t} (M_{t+1} - M_t) - O_t (P_{t+1} - P_t)$

These four terms represent the employment changes whose source is respectively, (real) consumption, exports, imports and productivity.

Over and above straightforward data error problems certain general assumptions are made in the analysis which need to be remembered:

(i) For the purpose of analysis the four sources are assumed independent of each other. Clearly this is not always true in practice. Increases in "cheap" imports will, by lowering the domestic price and if the price elasticity of demand is positive, increase total domestic demand and, to some degree, domestic employment. On the other hand, an increase in productivity (displacing labour) could improve export and import-competing performance (creating employment).

(ii) Indirect effects are ignored on supplier industries. This does, however, show up in reduced/increased demand in intermediate industries. However, to separate out this effect would require, as part of this exercise, a grouping of industrial categories to the level of aggregation of the UK input output tables and making deductions from there. This can be done with additional effort.

(iii) Productivity is defined in terms of output per man year; this may disguise changes in output per man hour offset by parttime/overtime working.

(iv) Output is assumed to be consumed, exported or imported. Changes in inventories are therefore ignored.

Data

An attempt was made to calculate the above effects for the period 1970-75, for three digit (SIC) industrial categories in the range 211-499. Analysis is presented for 32 categories which were the only ones to satisfy a rather undemanding criterion of "sensitivity" that ldc imports should be greater than 2% of UK consumption (plus two others, man-made fibres/^{and} woollens, added to give a comprehensive picture of textiles).

Data used was:

(i) Report of the Census of Production, for output at current prices, and employment. (I have discovered subsequently that there are some quite alarming discrepancies between census/Dept. of Employment data and some of the calculations need to be reworked.)

(ii) M10, for overseas trade analysed in terms of industries.

(iii) unpublished Department of Industry data for separating out ldc's on an M10 basis. Unfortunately the ldc category is not broken down by the DOI into components. It is defined in a way which is both too broad (to include OPEC oil exporters) and too narrow (it excludes Eastern Europe, South Africa, and Southern Europe) for a comprehensive picture of "low cost" suppliers. But coverage does correspond closely to the GSP (except for Yugoslavia and Rumania which are excluded here).

(iv) wholesale price indices; were obtained from Trade and Industry, for the purpose of expressing output and apparent consumption in real terms. This introduces some unavoidable error. The index refers to domestic production only and where imports are a large percentage of consumption this could distort the deflation of consumption. There is no obvious way of separately deflating imports without enormous extra effort. For this reason, consumption was treated as a residual of the various factors and this residual value compared with the directly calculated figures. Only in a few cases were there substantial discrepancies.

In terms of data analysis the following additional points should be made:

(i) The whole exercise required to be carried out in terms of values rather than quantities. This could have resulted in the underestimations of the employment loss from low cost imports where unit values are much lower than for competing domestic substitutes. However, in practice, the results (at least for the import displacing effect) tallied with calculations in the ODI Review article for cotton yarn, fabrics and shoes which were there calculated in terms of quantities rather than values.

(ii) Imports and exports were treated together for the purpose of this calculation; thus the results present the net effect of trade (overall and for ldc's).

(iii) Comparison on a simple comparative static basis clearly leaves much to be desired. However, M10 data does not go back beyond 1970 (at least separating out groups of suppliers). 1976 data is now available and can be used to cross-check. The additional labour involved seemed not to justify computing a 5/6yr. continuous time trend, which would, because of its shortness not have very reassuring statistical properties.

(iv) Since we are dealing with a discrete time period rather than an instantaneous change we have a practical problem of specifying the base-year for the purpose of calculating the constant terms in the equation. We used 1970 but it would be better to use an average of 1970 and 1975. A few trial runs suggest that this did not make a great deal of difference.

Results

(i) For the 34 categories considered only two - hosiery and mens shirts/undergarments - show evidence that employment displacement attributable to ldc imports (net) was a significant factor in relation to productivity changes or overall trade. Even in these two cases, productivity growth in the mens shirts/underwear sector seems to have displaced labour more effectively than ldc import competition and falling domestic demand has apparently been more important in the case of hosiery products. For leather goods and cutlery, mens and

womens tailored outerwear, cotton fabrics and childrens' dresses there were ldc job losses of over 1000 but the influence was in each case less than both non-ldc trade and productivity, usually substantially so. Non-ldc trade seemed to have significant job displacing effects absolutely or relative to productivity factors, for man-made fibres, toys, woollens and worsteds, footwear. In the case of footwear, Southern and East European "low cost" suppliers probably accounted for some part of this.

(ii) In over half of the cases considered, the employment effect of ldc trade was positive because of reduced (net) import penetration. This was particularly true of processed foodstuffs, but also of cotton yarn and jute (reflecting, presumably domestic import substitution and diversion of trade to ldc suppliers following earlier selective protection).

(iii) Although the consumption measure is the least reliable, falling home demand seems to have been a decisive factor in explaining job loss in the cases of woollen and worsted, hosiery and cotton yarn (the last possibly as a result of weakening derived demand from clothing; more probably because of mmf substitution). In the other sectors any net job loss is attributable primarily to a failure of domestic demand to rise as rapidly as labour displacing productivity.

There are some large discrepancies in the data which need sorting out before it is published or more widely distributed. In particular:

(i) the often large discrepancies in Census/DOE employment data need to be accommodated. This is especially serious for footwear and shirts.

(ii) there are large gaps between "residual" and calculated consumption which need explaining for hosiery, watches and childrens' clothing.

(iii) estimates made originally in ODI Review 2 and here, by a different method, correspond broadly in terms of trade effects. But the relative magnitudes of productivity/consumption effects are greatly divergent for footwear and cotton fabrics. Clearly - a need for reworking with various data.

Interpretation

Not a great deal is claimed for the results. The assumptions and data limitations preclude that. But a few conclusions can be tentatively drawn:

(i) any significant contribution by ldc imports to the overall 'adjustment problem' of UK industry is extremely difficult to detect. Only in 32 out of 120 industrial items was there a priori evidence of a "problem" (in terms of "import penetration"). Out of these, for only two could ldc imports be seriously represented as a dominant cause of adjustment difficulty. This suggests at very **least** a change in vocabulary, as does similar work in Germany, from metaphors based on "floods" and "torrents" to those based on 'straws on camels' backs'. Further we have ignored the other 90 or so sectors where by and large ldc trade has had a positive employment impact.

(ii) even in the few highly sensitive categories where ldc import competition clearly is important, the analysis suggests a need for caution in treating protection as an antidote in terms of employment stability since the other sets of influences are still operating. In practice, the effect of trade protection which raises domestic prices is probably unhelpful for employment both in its indirect effects on depressing consumption growth (because of the price elasticity of demand for final products and substitution elasticities for intermediate goods) and by accelerating job displacing productivity growth in these industries (by encouraging, as a result of higher profits, investment in more capital intensive techniques). Thus 'the industry' is helped but not necessarily workers' job prospects. This appears to have been part of the story of jute and Lancashire cotton spinning, and my own estimates are consistent with it, for these industries.

One line of criticism levelled at the original article (by textile companies, understandably) was that it was simply not right to treat productivity as comparable to trade as a source of redundancy. Put at its simplest the argument was that one should not mix up productivity which is "a good thing" with trade which is not "a good thing" in itself, only if there is a trade surplus. This crude mercantilism, while representing widely held views

is of highly questionable merit. Trade is merely one form of productivity growth, realised as resources move from less to more productive uses elsewhere in the economy, just as internal productivity changes within industries (reducing 'overmanning') also release resources for more productive use elsewhere. When there is widespread unemployment or inefficient labour markets this redeployment may not take place, but this is as much an argument against (or qualifying) reducing 'overmanning' within firms and industries as it is for reducing 'overmanning' in the economy as a whole by reducing in the UK the relative importance of labour intensive industries through trade specialisation with ldc's.

Further Work

Discussion might indicate the utility or otherwise of extending this work:

- (i) to cover the 1970-76 period;
- (ii) to trace indirect effects via national input output tables;
- (iii) to cover all 120 industrial categories

- or in other directions.

4th April 1978

Vincent Cable

EB.

1	2	3	4	5	6	7	8	9	10
CODE	NAME.	LDC market share 1975.	LDC Trade balance 1975 (m.£)	Employment change 1970 - 1975.	Due to Productivity Change	Due to all trade change	(of which) LDC Trade	Direct Consumption Change (residual) 5-6-7	Consumption Direct
<u>FOOD DRINK</u>									
<u>TOBACCO</u>									
214	Meat and fish processed	2.3	-52.5	+5,400	-7,200	+10,200	+2,600	+2,400	+2,700
217	Cocoa, chocolate confectionery.	2.9	-12.0	-8,300	-16,600	+200	+100	+8,800	+10,300
218	Fruit and vegetable products	3.7	-30.0	-2,800	-9,900	+3,200	+400	+3,500	+4,100
221	Vegetable oils	14.4	-103.5	-300	-2,900	+1,200	+400	+1,400	+1,300
229	Other food	15.7	-164.1	+1,900	-6,200	+3,700	+3,900	+4,400	+5,400
232	Soft drinks	2.7	-11.1	-1,700	-12,600	+500	+100	+10,400	+17,900
<u>REFINING</u>									
262	Oil refining	2.4	-112.0	+600	-6,600	+800	+300	+6,400	+10,100
<u>CHEMICALS</u>									
271	general chemicals	2.4	+118.7	-3,600	-22,000	+8,500	-400	+22,500	+18,800
<u>METALS</u>									
322	copper manufactures	15.5	-121.2	+7,400	-7,200	+2,100	+1,300	-2,300	-3,100
323	other base metal manufactures.	22.2	-9.5	-5,300	-100	+300	-	-5,100	-4,900
<u>INSTRUMENTS</u>									
352	watches, clocks	4.6	-0.7	+300	-900	+200	+300	+1,000	+4,210
<u>ELECTRICAL EQUIPMENT.</u>									
367	radios etc	3.5	-16.5	-2,700	-15,400	-4,500	-900	+17,200	+23,100
<u>METAL GOODS</u>									
392.	cutlery etc.	6.5	-4.7	-500	-1,400	-3,400	-1,100	+4,300	+4,200

II

1	2	3	4	5	6	7	8	9	10
CODE	NAME.	LDC market share 1975	LDC trade balance 1975(mn £)	Employment change 1970-1975	Due to Productivity	Due to all trade	LDC trade	Consumption (residual) 5-6-7	Consumption Direct.
<u>TEXTILES</u>									
411	men made fibre	0.1	+39.3	-1600	-7800	-3800	+1000	+10000	+11800
412	cotton yarns and thread	7.3	-32.9	-26300	-9300	-3200	+1900	-13800	-16300
413	cotton fabrics	11.5	-45.2	-13800	-12700	-7900	-1600	+6800	+8500
414	woollen and worsted	0.6	+35.9	-36100	-7600	-6300	-300	-23200	-26100
415	jute	10.8	-7.9	-1600	-1000	+1600	+1500	-2200	-2300
417	hosiery	9.0	-55.2	-14200	+2500	+4500	-6900	-14300	-7700
419	carpets	3.4	-5.0	-3900	-9000	+600	+500	+4500	+5700
422	made up textiles	3.4	-3.2	+2100	-4200	-1600	+500	+7900	+9500
<u>LEATHER GOODS</u>									
431	tanning leather	9.3	-18.1	-2700	-4600	-600	+100	+2500	+3000
432	leather goods	8.9	-8.7	+400	-2300	-2600	-1100	+5300	+6500
<u>CLOTHING AND FOOTWEAR</u>									
441	weather proof outerwear	9.5	-9.2	-1800	-4300	-2400	-700	+4900	+3800
442	men's tailored outerwear	4.9	-20.5	-12900	-20800	-10300	-2300	+19800	+18300
443	women's tailored outerwear	5.2	-11.6	(-7000) -3100	(-13300) -9400	-4800	-1600	+11,100	+12500
444	men's shirts overalls underwear	26.0	-80.1	(-3800) +1600	(-13300) -9500	-6000	-6400	+17200	+24100
445	dresses children's wear	5.9	-23.8	(-7000) +3900	(-35200) -25300	-5700	-2200	+34900	+48600
449	dress industries (not otherwise specified)	7.5	-14.8	(-4500) -2700	(9100) -7300	+100	+1800	+4500	+5800
450	Footwear	3.9	-16.3	-8300	-16500	-8600	-100	+16800	+20,700

III

1	2	3	4	5	6	7	8	9	10
CODE	NAME.	LDC market share 1975.	LDC trade balance 1975(ma 2)	Employment change 1970 - 1975	Debt to Productivity	Due to all trade	LDC trade	Consumption (residual) 5-6-7	Consumption Direct.
<u>OTHERS.</u>									
471	Timber	4.2	-71.3	-3100	-1000	+4800	+400	-6900	-8500
493	Shingles/boards	5.5	-1.0	-1700	-200	+400	+600	-1900	-1800
494	Toys, sports	9.2	-14.6	-1600	-8400	-6700	-400	+16700	+15500
499.	miscellaneous manufactures	4.5	-0.5	-1500	+150	-2300	-300	+650	+650

EFFETS DU COMMERCE AVEC LES P.V.D. SUR L'EMPLOI EN FRANCE

Extrait du rapport sur l'évolution du tiers-monde
et l'appareil productif français

Commissariat général du Plan

b) Les échanges de produits industriels ont conduit à la création nette de 100 000 emplois de 1970 à 1976

L'accroissement des débouchés offerts par les PVD a constitué dans les dernières années un terrain d'expansion pour l'industrie française. Une estimation théorique des emplois concernés évalue la création nette d'emplois correspondant aux échanges de produits industriels avec les pays en développement à 100 000 emplois de 1970 à 1976 (1).

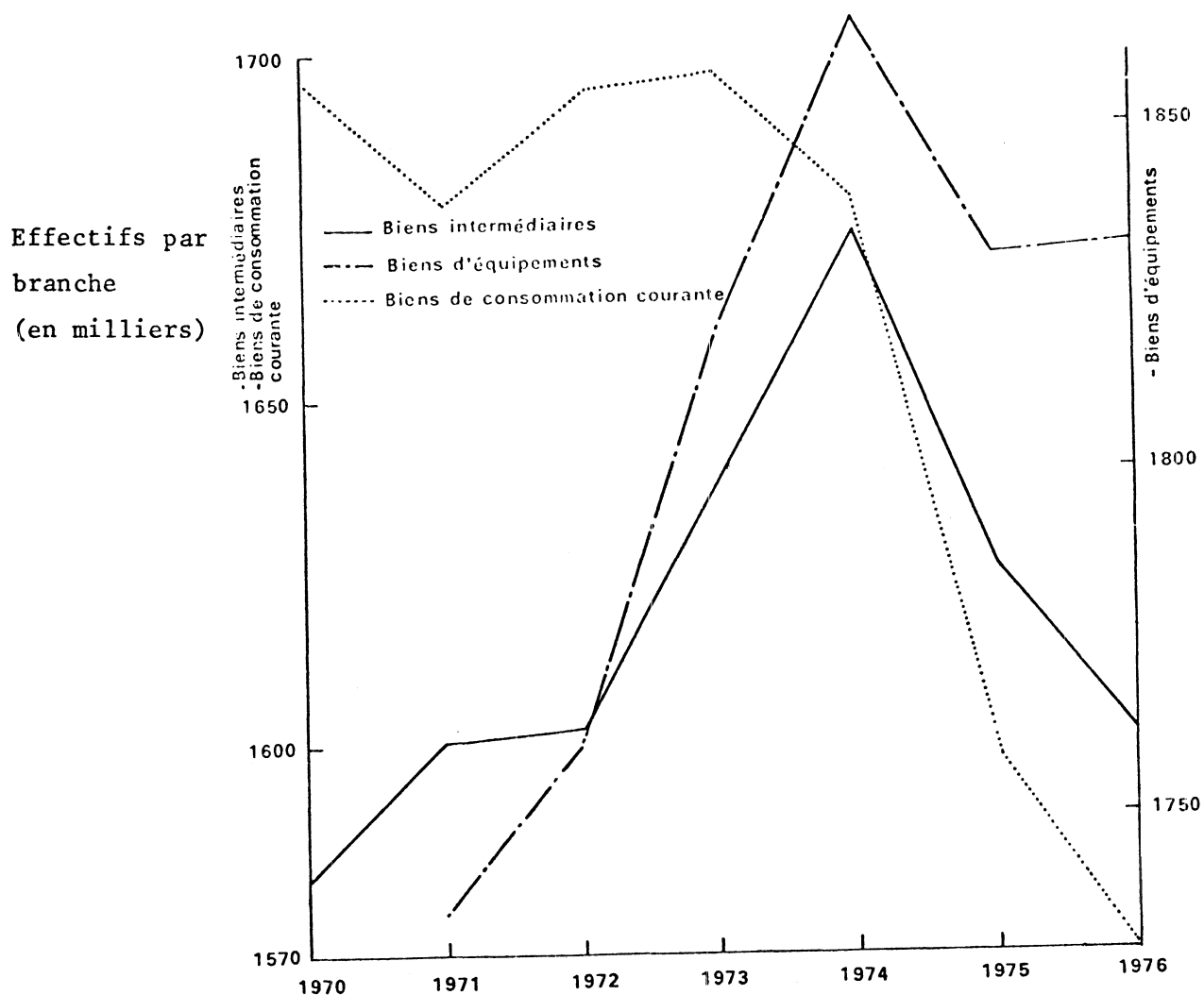
TABLEAU 12 - Emplois industriels

	Emplois dans l'industrie	Emplois "théoriques" correspondant aux échanges avec le Tiers-Monde			
		Exportations		Importations	
1970	5 445 000	234 000	4,3 %	74 000	1,3 %
1976	5 462 000	363 000	6,6 %	93 000	1,7 %
Ecart 1976-1970	+ 17 000	+ 129 000		+ 19 000	

Source : Etude SETEF

(1) Cette étude a été réalisée par la S.E.T.E.F. (Société d'Etude Economique et Financière) - Les échanges français de produits industriels avec les pays en développement - novembre 1977. (annexe 9).

Il faut replacer cette évolution dans le cadre général de l'évolution de l'emploi industriel en France. En 1976, l'emploi industriel est revenu à son niveau de 1971. Alors que l'emploi dans les secteurs de biens d'équipement a cru d'environ 100 000 de 1971 à 1976 (correspondant largement à des ventes aux pays en développement), l'emploi dans les biens de consommation courante connaît une baisse accélérée imputable pour l'essentiel à la branche textile et habillement (pour lesquels l'importation en provenance des pays en développement ne représente que 5 % du total des importations).



Quatre éléments corrigent ces constatations :

- Les échanges avec les pays en développement ont conduit à des reconversions inter-sectorielles importantes. Les échanges avec les pays en développement ont été créateurs nets d'emplois principalement dans la construction mécanique et électrique (+ 13 000), la construction navale, aéronautique, armement (+ 33 000), la chimie (+ 30 000), la première transformation des métaux (+ 25 000) mais ces échanges ont exercé des pressions à réduction des emplois sur les branches textile, habillement (- 8 000), cuirs, chaussures (- 4 000), bois, meubles, industries diverses (- 6 500).
- La spécialisation industrielle des régions aggrave en France le problème de la concurrence des pays du Tiers-Monde ou plus généralement le problème de la régression des activités traditionnelles.(1)

Si l'on confronte les pourcentages d'emploi industriel régional impliqués à l'importation et à l'exportation, on constate que la régression d'activités traditionnelles, même relayée par le développement d'exportations d'équipement, entraîne des déséquilibres régionaux importants.

Facteur aggravant dans le cas de la concurrence des importations, les départements sensibles ont en général une activité très concentrée sur un petit nombre de produits. Dans une dizaine de départements, les activités menacées, si aucune mesure n'est prise, représentent près de 40 % de l'emploi industriel.

En sens inverse, les activités dont une part importante de la production est exportée vers les pays en développement sont généralement plus dispersées géographiquement.

(1) Etude INSEE. Développement des échanges avec le Tiers-Monde et problèmes régionaux d'emploi. (annexe 8).

- Le niveau de qualification moyen et de salaire des industries menacées est inférieur à celui des industries exportant vers le Tiers-Monde.

Les branches les plus menacées par la concurrence du Tiers-Monde sont caractérisées par un fort pourcentage d'emploi féminin. En revanche la main d'oeuvre immigrée est relativement peu représentée (1).

TABLEAU 13 - Caractéristiques des salaires dans certaines branches menacées

	Δ salaires (2)	% de femmes	% salariés étrangers
Textiles habillement	70 %	66 %	8,5 %
Cuir chaussures	67 %	53 %	7,5 %
bois meubles	75 %	20 %	12 %
moyenne toutes indust.		26 %	11,5 %

L'évolution des salaires de 1967-1973 marque une réduction de la disparité des salaires entre ces trois branches et le reste des branches industrielles due notamment à la politique continue de relèvement des bas salaires.

Cette constatation pose un problème délicat de choix entre objectifs en partie contradictoires à court terme : la revalorisation du travail manuel et des bas salaires, la réduction des disparités salariales entre branches, le maintien de l'emploi, l'ouverture commerciale.

(1) L'essentiel de la main d'oeuvre immigrée se trouve dans des secteurs non concurrencés : bâtiments et travaux publics : 30 % des salariés, hygiène : 40 % des salariés. Dans l'industrie elle est concentrée dans les industries lourdes de biens intermédiaires : métallurgie (16 %), verre (15 %), automobiles.

(2) Δ Salaires = $\frac{\text{Salaire moyen de la branche}}{\text{Salaire moyen des 3 branches les mieux placées}}$: armement, aéronautique, instruction navale/construction mécanique et électrique/matériel de transports terrestres.

L'Italie donne un exemple d'ajustement "sauvage" par la flexibilité des salaires et le non paiement des charges sociales. Dans le textile-habillement on compterait 250 000 travailleurs au noir.

Compte-tenu du constat fait sur les déséquilibres régionaux, la localisation dans des régions différentes des emplois menacés par la concurrence du Tiers-Monde et des emplois créés par les marchés qu'il offre, on pourrait envisager en France des subventions temporaires à l'emploi aussi bien pour ralentir la chute des effectifs dans les secteurs exposés que le développement des activités exportatrices.

- Le secteur des services rendus aux entreprises, des organismes financiers et de la formation a créé en France 600 000 emplois de 1970 à 1976.

Bien qu'il soit très difficile de mesurer la part des relations avec le Tiers-Monde dans ces activités, celle-ci devient certainement importante, notamment en matière de formation technique ou de gestion, en France ou sur place.

Les projets industriels en Afrique sub-Saharienne sont réalisés avec le concours de cadres expatriés, représentant en moyenne 2 % des effectifs totaux.

Une évaluation portant sur les principales entreprises françaises concernées par le transfert de "maîtrise industrielle" dans le Tiers-Monde (Total, Berliet, Peugeot, Creusot-Loire...) aboutit à 10 000 techniciens ou ingénieurs français expatriés, employés actuellement dans ces activités.

2 - Les perspectives 1978-1985 (1)

Quatre effets sur l'emploi industriel en France doivent être pris en compte :

- les pertes d'emploi qui résulteraient de la pénétration des produits du Tiers-Monde sur le marché national. (Des importations en provenance du Tiers-Monde qui se substituerait à des produits déjà importés seraient sans effet sur l'emploi (2)) ;
- les créations d'emplois liées aux exportations françaises vers le Tiers Monde ;
- les pertes d'emploi qui résulteraient de la fermeture d'un certain nombre de marchés du Tiers-Monde ;
- les effets de substitution sur les marchés étrangers de produits du Tiers-Monde aux produits français.

Seuls les trois premiers effets directs ont été évalués (3) à partir d'un jeu de quatre hypothèses : deux pour les exportations, deux pour les importations.

a) croissance rapide des exportations françaises vers les PVD. Les exportations de chaque secteur croîtront d'ici 1985 au rythme 1970-1976 avec un plafonnement à + 10 %, hypothèse dont la réalisation ne devrait pas être impossible eu égard aux faibles parts que détient actuellement l'industrie française dans nombre de marché des PVD les plus dynamiques.

(1) Etude SETEF : les échanges français de produits industriels avec les pays en développement - novembre 1977.

(2) Ces effets peuvent être importants quand on considère les différences de prix. Ex : chaussettes fabriquées en Italie 1,24 F la paire, Corée du Sud 0,90 (référence du même article fabriqué en France 2 Francs).

(3) Le quatrième effet aggraverait les résultats obtenus, mais sans en changer significativement l'ordre de grandeur, à condition que les autres pays industrialisés n'adoptent pas de règles discriminatoires.

b) Chute ou stagnation des exportations françaises vers les PVD, sous la pression de la substitution aux importations et de la concurrence internationale.

Les industries actuellement menacées perdent totalement leurs débouchés d'ici 1985. Les exportations de biens d'équipement croissent faiblement ou stagnent à partir de 1980 ce qui suppose une relative perte des marchés par la France face à d'autres concurrents industriels.

c) L'ouverture du marché français aux importations en provenance des PVD s'accroît. Les importations de chaque secteur augmentent d'ici 1985 au rythme 1970/1976 avec un taux minimum de 5 % par an.

d) Limitation de la croissance des importations en provenance des PVD dans les secteurs sensibles. Les importations du textile-habillement, cuirs-chaussures, bois-meubles, imprimerie-édition voient leur taux de croissance limité à 6 % par an (1), celles des autres secteurs au rythme 1970/76.

TABLEAU 14 - Evolution de l'emploi industriel en France suivant les 4 hypothèses

Lié à l'exportation		Lié aux importations	
"a "	+ 205 000	"c"	- 344 000
"b "	+ 86 200	"d"	-- 154 000

Il n'est pas possible de relier de manière assurée les hypothèses d'importations et d'exportations bien qu'il faille souligner la position vulnérable de la France face au souhait d'un nombre croissant de pays en développement, d'équilibrer leurs échanges (2). Un lien entre les hypothèses "a" et "c" ou "b" et "d" est probable.

(1) Le taux de 6 % est celui retenu par la Commission Européenne pour les négociations concernant les produits textiles.

(2) Le commerce extérieur français en 1975 à 1976 est excédentaire avec 30 des 36 pays en développement non pétroliers les plus importants du Tiers-Monde. Vis à vis des pays dits "d'exportation sauvage" (Corée du Sud, Hong-Kong, Tunisie, Maroc) notre solde commercial est régulièrement positif.

En combinant les hypothèses extrêmes, il apparaît que le développement des échanges avec les PVD pourrait infléchir l'emploi industriel en France d'ici 1985 dans une fourchette de + 1 % à - 5 % (soit + 50 000 à - 250 000). Ce résultat peut paraître moins grave que les conclusions d'un certain nombre d'études disponibles sur le cas de l'Allemagne Fédérale. La différence provient de ce qu'ici, même dans le cas d'ouverture croissante du marché français, hypothèse "c", on ne se place pas dans le cadre d'une libéralisation totale et incontrôlée des échanges.

Mais ce qui importe le plus, c'est le nombre total d'emplois éventuellement menacés qui seront contraints à un reclassement, soit dans leur branche, soit hors de celle-ci. Ces emplois s'évaluent entre 3 et 7 % des effectifs 1976, soit des effectifs variant entre 25 000 et 55 000 emplois par an, dont deux tiers à un tiers hors de la branche d'origine.

La pression ne concernera pas uniformément tous les secteurs industriels.

Dans le cas d'une évolution très défavorable, elle serait très importante dans le "textile-habillement" où elle pourrait concerner d'ici à 1985 30 % des effectifs 1976, soit porter en 8 ans sur 200 000 emplois. Les pertes d'emploi pourraient également être importantes dans les secteurs "cuirs-chaussures", "bois-meubles", "industries diverses", "verre"...

L'examen systématique des potentialités de création d'emplois qui découleront du développement des exportations de produits industriels vers les pays du Tiers-Monde montre que ces créations pourraient représenter d'ici à 1985 de 2 à 8 % des effectifs de l'industrie de 1976, soit un rythme de créations d'emplois de 15 000 à 60 000 emplois par an.

3 - Ces mouvements en sens contraire s'appliqueront à l'industrie française pendant une période où elle ne devrait plus guère accroître le niveau global des emplois offerts et où même s'amorcera peut être un "exode industriel".

Ils se cumuleront avec les pressions dues à la concurrence des pays du Sud, candidats à l'entrée dans la C.E.E., à celle des pays de l'Europe de l'Est et à celle des autres pays industriels.

Un contexte de croissance économique lente et de situation critique des relations financières et économiques internationales aggraverait considérablement l'ampleur du problème

- par une intensification de la concurrence y compris entre pays industrialisés,
- par un risque accru d'insolvabilité des pays en voie de développement,
- par l'asymétrie qui en résulterait pour les économies des pays industrialisés : ceux-ci subiraient le contrecoup d'une concurrence accrue (perte d'emplois) sans pouvoir espérer développer des emplois à l'exportation.

NOTE SUR L'INCIDENCE POUR L'ECONOMIE BELGE D'UNE AUGMENTATION DU COMMERCE
EXTERIEUR AVEC LES PVD

V. VAN ROMPUY
Professeur K.U. LEUVEN

1. Méthode de travail utilisée

On a recherché une réponse approximative à la question suivante : quelle est l'incidence directe et indirecte sur le PNB et sur l'emploi en Belgique d'un accroissement simultané d'un milliard de FB des exportations vers les PVD et des importations provenant des PVD.

Lors de l'application de l'analyse input-output on a fait usage des données statistiques suivantes :

- a. le tableau input-output pour la Belgique de l'année 1970;
- b. la structure du commerce extérieur de la Belgique pour l'année 1970; le commerce a été limité aux produits concurrentiels;
- c. les coefficients d'emploi pour 1970.

La valeur ajoutée brute par homme-année a été utilisée comme une grandeur approximative pour le capital matériel et intellectuel des secteurs.

2. Commentaire des résultats obtenus

Calculé en prix de 1970, et avec la structure de production et de commerce de cette même année, un accroissement des importations concurrentielles provenant des PVD pour un montant de 1 milliard FB provoque une perte d'emplois de 2.084 unités par an pour l'ensemble de l'économie belge (Tableau 1).

Si l'on considère alors que 1 milliard de revenus d'exportations est dépensé par les PVD pour acheter des produits belges, il en résulte, en maintenant constant la structure d'exportations de 1970, une création de 1.750 emplois par an en Belgique.

Par conséquent, une expansion équilibrée du commerce de produits concurrentiels avec les PVD pour un montant de 1 milliard FB (prix 1970) provoquera (si la durée du travail reste constante), une perte nette de 334 unités d'emplois pour l'ensemble de l'économie belge (1).

En réalité, ce résultat net masque le fait que, sous les hypothèses de développement équilibré du commerce, les branches de l'économie où se concentre principalement l'expansion des exportations et de l'emploi diffèrent fondamentalement des secteurs qui souffrent de l'accroissement de la concurrence des importations et de la diminution d'emplois (Tableau 3). Au total, si l'on assiste à une augmentation équilibrée du commerce avec les PVD pour 1 milliard FB (prix

(1) En 1970 les exportations concurrentielles de la Belgique avec les PVD s'élevèrent à un montant de 30 milliards de FB; le montant correspondant pour les importations était de l'ordre de 2,9 milliards de FB. La population salariée s'éleva à 2,9 millions de travailleurs et employés.

1970), le résultat est une perte d'un millier d'emplois, surtout dans les industries textiles et de vêtement (-560) la fabrication de chaussures (-119), les autres industries parmi lesquelles celle des jouets (-112), le traitement du bois (-39). Les machines de bureau (-25) et l'industrie chimique (-20) sont aussi parmi les domaines qui subissent une diminution de l'emploi. Par contre, quelques secteurs connaissent une augmentation du nombre d'emplois : c'est le cas surtout pour la construction de machines (+172), l'industrie des fabrications métalliques (+108), les fabrications électro-techniques (+101).

Les effets macro-économiques sur l'emploi, qui résultent d'un accroissement du commerce réciproque entre la Belgique et les PVD, s'appuient sur l'hypothèse d'une mobilité suffisante du travail, aussi bien entre les secteurs qu'entre les régions.

L'accroissement du commerce réciproque entre la Belgique et les PVD pour un montant de 1 milliard (prix de 1970) conduit, malgré le solde négatif du nombre d'emplois, à une modification positive du PNB de 36 millions FB (PNB au coût des facteurs) (Tableau 1)(1). La perte d'emplois est plus que compensée par un transfert de forces de travail et d'autres facteurs de production de secteurs d'activité à salaires et productivité faibles, vers des secteurs à salaires et productivité élevés. En 1970, les rémunérations et les composantes salariales d'un employé, par unité d'exportations compétitives vers les PVD, étaient de 20 % supérieures aux rémunérations d'un employé et par unité de production dans les activités en concurrence avec les importations en provenance des PVD (Tableau 2).

Remarque générale. Il ne faut pas accorder une importance exagérée aux valeurs absolues des résultats obtenus. La signification réside surtout dans le fait qu'ils donnent une orientation générale des changements impliqués, ainsi qu'un ordre de grandeur relatif.

(1) En 1970 le PNB de la Belgique était de l'ordre de 1.300 milliards de FB.

3. Observations

- Caractère statique de l'étude. La structure des exportations et des importations de 1970, ainsi que les coefficients techniques du tableau input-output, de 1970, ont été supposés constants.
L'évolution survenue depuis 1974 donne l'impression que notamment la structure des importations s'est modifiée dans le sens d'un développement accéléré de certains produits manufacturés incorporant beaucoup de main d'oeuvre à bon marché. Les coefficients techniques de 1970 se sont également modifiés sous l'influence du progrès technique.
- L'incidence du développement du commerce extérieur sur les prix a été négligée. Dès lors les conséquences pour la structure de la consommation, le volume des importations et l'emploi peuvent être différentes de celles présentées ci-dessus.
- L'avantage pour le consommateur appartenant au PD qui résulte d'une diminution des prix est parfois largement réduit à cause des bénéfices accrus réalisés par les entreprises de production dans les PVD et les intermédiaires commerciaux.
- L'ampleur du chômage actuel réduit considérablement la mobilité professionnelle et régionale.
- L'information statistique disponible est insuffisamment affinée pour en arriver au niveau qu'exigerait une approche concrète des problèmes de restructuration. Plus précisément, cela signifie qu'une branche d'industrie qui, sur base de l'analyse faite dans cette étude, se trouve dans une situation de pression sous l'effet du commerce international, n'est pas nécessairement en difficulté dans tous ses domaines. Inversement, une évolution positive dans un secteur ne veut pas dire que certains problèmes ne se posent pas pour diverses entreprises à l'intérieur même de ce secteur.

Justification de l'hypothèse d'un accroissement simultané des importations et des exportations par le même montant

Hypothèse de travail : dans les PVD l'utilisation des facteurs de production disponibles, dont principalement le travail, est limitée par la pénurie de devises internationaux. Un accroissement des exportations vers les PD permettra les PVD de financer des importations provenant de ces derniers pays d'un même montant (1).

Cette hypothèse de travail est peut-être valable pour l'ensemble des PVD comparé à l'ensemble des PD, mais pas nécessairement pour chaque PD pris individuellement.

L'évolution du commerce extérieur de la Belgique avec les PVD entre 1965 et 1975 permet cependant de conclure à un développement assez parallèle des exportations et des importations.

Part des PVD dans le commerce extérieur de la Belgique

	<u>Importations PVD</u>	<u>Exportations PVD</u>
	<u>Total Imp. %</u>	<u>Total Exp. %</u>
1965	15.3	8.6
1970	14.8	7.6
1974	15.5	9.1
1975	13.8	10.8
1976	14.7	9.6

(1) En 1970 une augmentation des exportations concurrentielles belges vers les pays PVD aurait représenté 3 % des exportations existantes; du côté de l'importation concurrentielle un changement de la même importance aurait constitué 34 % des importations provenant des PVD à ce moment.

4. Conclusions générales

1. L'élargissement du commerce extérieur d'un PD avec les PVD présente un certain nombre d'avantages et d'inconvénients. Certains conséquences se prêtent mieux à une expression quantitative que d'autres. Dans cette note se trouvent exposés brièvement les premiers résultats d'un travail concernant l'incidence sur les revenus et sur l'emploi d'un accroissement équivalent des importations et des exportations.
2. Il ne faut pas accorder une importance exagérée aux valeurs absolues des résultats obtenus. La signification réside surtout dans le fait qu'ils donnent une orientation générale des changements impliqués, ainsi qu'un ordre de grandeur relatif.
3. Au total l'incidence nette sur l'emploi sera probablement négative tout au moins dans un premier stade et dans l'hypothèse que la durée du travail reste constante.

Les salaires et les revenus réels et dès lors le PNB seront favorablement affectés.

Dans l'ensemble les modifications ne seront pas considérables.

Ces conclusions sont dans la ligne des résultats obtenus dans des études similaires effectuées dans d'autres PD.

4. Le résultat net masque cependant le fait que les branches de l'économie où se concentre principalement l'expansion des exportations et de l'emploi diffèrent fondamentalement des secteurs qui souffrent de l'accroissement de la concurrence accrue des importations et de la diminution d'emplois. De plus, les travailleurs mis en chômage appartiennent dans une mesure assez considérable à la catégorie des non ou plus qualifiés. Dès lors la reconversion sociale sera lente, difficile et parfois impossible. En outre le climat général dépressif actuel et l'ampleur du chômage existant rendent chaque effort supplémentaire à la restructuration économique et à la reconversion sociale particulièrement difficile.

5. Bibliographie

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Tableau 1 : Effets globaux d'un accroissement simultané des importations et des exportations concurrentielles de la Belgique d'un milliard de FB avec les pays en développement

	1965	1970
<u>A. Importations</u>		
Emploi (homme-années)	- 2991	- 2084
Valeur ajoutée (millions FB)	- 528	- 559
dont salaires	- 373	- 377
<u>B. Exportations</u>		
Emploi (homme-années)	+ 2467	+ 1750
Valeur ajoutée (millions FB)	+ 603	+ 595
dont salaires	+ 417	+ 379
<u>C. Solde net (B-A)</u>		
Emploi (homme-années)	- 524	- 334
Valeur ajoutée (millions FB)	+ 75	+ 36
dont salaires	+ 44	+ 2

Tableau 2 : Intensité des facteurs des importations et des exportations concurrentielles de la Belgique avec les PVD (en milliards de FB)

	Val. ajouté par pers. empl.	dont salaires
<u>1965</u>		
Importations	148	105
Exportations	205	142
Importations/Exportations	0,72	0,74
<u>1970</u>		
Importations	268	181
Exportations	340	217
Importations/Exportations	0.74	0.83

Tableau 3 : Effets sur l'emploi et sur la valeur ajoutée d'un accroissement des importations et des exportations de la Belgique avec les PVD.
1970

Secteurs	Emploi			Valeur ajoutée (en mln.FB)		
	Imp.	Exp.	Solde	Imp.	Exp.	Solde
Agriculture	7	3	- 4			
Charbon	11	32	21			
Cokes	2	7	5			
Pétroléum	6	6	0			
Electr. eau, gaz	13	19	6			
sidérurgie	45	203	158	23	102	79
Verre	7	46	39	21	14	12
Matér. constr.	2	16	14			
Autres minér.	8	13	5			
Chimie	183	164	-19			
Fabr. métal.	61	169	108	16	45	-29
Machines	82	254	172	12	79	67
El. techn.	48	149	101	15	46	31
Autom.	2	22	20	82	44	-38
autr. moy. transp.	285	155	-130			
Alim., boiss., tab.	2	1	- 1			
Confection	270	30	-240	44	5	-39
Autre Text.	439	119	-320	97	26	-71
Chaussures	124	55	-119	21	1	-20
Bois	56	17	-39			
Papier	64	55	- 9			
Caoutchouc	12	15	3			
Mat. plast.	9	7	2			
Autr. indus.	118	6	-112	19	1	-18
Serv. incl.constr.	224	234	10			
Total	2084	1750	-334	559	559	36

ITALY : Regional Impact on Employment of increased competitive imports
from LDC

To my knowledge, no detailed study has been carried out on the regional **impact** on employment of increased competitive imports of manufactures from LDC's with reference to the case of Italy. As a matter of fact, apart from my calculations previously submitted and from considerations of a general nature, such a study does not exist even for Italy as a whole.

From Census data, it is possible to have detailed regional and provincial quantitative information on manufacturing employment in various industries. A good comparison for the 20 Italian regions between the results of the two industrial censuses of 1961 and 1971 was published about a year ago in the Italian weekly economic review "Mondo Economico" (1). From it, it is possible to notice that in the period 1961-1971 a higher spatial dispersion in some industrial sectors has occurred (chemical fibres, plastics), while other sectors (most of light mechanical industries) still have a high spatial concentration. The first sectors have been moving more towards the southern regions, while the second group has been moving more towards the north-east, with some new locations also in Campania and Puglia (south). It is also possible to notice that a re-equilibrium process has taken place between the north-west (Lombardy, Piedmont, Liguria) and the north-east. On the contrary, within the south, regional unbalances have increased from the point of view of manufacturing employment. Campania and Puglia have recorded a slight increase in labour-intensive manufacturing activities (like light mechanical industries), while in the other southern regions the decreasing importance of traditional activities (food, clothing, wood, etc.) has favoured an increase in more capital-intensive industries (plastics, fibres, petroleum refinery). Central and north-eastern regions, on the other hand, have increased their share in "traditional" more labour-intensive activities. Thus, the dualistic structure of Italian regional industrial employment has been in a sense replaced by a new situation characterized by three areas with

(1) Mr. Grillo, Mr. Silvani, "Concentrazione territoriale dell'industria manifatturiera (1961-1971)", Mondo Economico, n. 25, 2 luglio 1977, pp. 39-49.

quite different features: the north-west (highly industrialized), the centre and north-east (from Tuscany upwards) and the south.

This implies also that the impact of increased competition from manufactures from LDC's will be differently felt in the three areas and in their regions. Many sectors candidate for competition are highly located in the centre and north-east. Here, however, they seem to be able to adapt quickly to changing situations, thanks to the flexibility of firms (mostly small and medium size), to a high degree of entrepreneurship, the rapid introduction of innovations, etc. (although with some exceptions). The same applies for some sectors in the north-west. At a sub-regional level, however, some problems might occur (and in some cases are there), as a consequence of the high share in employment that some activities (like traditional textile) have in some towns and in their immediate surroundings.

The situation is much worse in the southern regions, where in many cases whole areas see their manufacturing employment in just one large plant. Some of these (chemical fibres, other chemical activities, petroleum refinery, steel, etc.) are at present in very bad economic conditions, and on the basis of economic criteria should be simply closed down, with disastrous consequences on manufacturing employment of the areas they are located in.

Consequently, the adjustment problem will be much more difficult to tackle in these areas, and it will require massive intervention in the fields of industrial and regional policy.

Carlo SECCHI
February 28, 1978

SOME (APPROXIMATE AND PRELIMINARY) CALCULATIONS ON THE EMPLOYMENT EFFECTS IN ITALY
OF INCREASED COMPETITIVE IMPORTS FROM LDC'S

In this note, some calculations (1) are presented and briefly discussed, with reference to the probable negative impact on employment caused by increased imports of competitive manufactured products coming from LDC's.

To my knowledge, contrary to what has been done for other EEC countries, no detailed quantitative study has been so far carried out for the Italian economy. Thus, I thought it might have been interesting for the group to have some (rough) calculations also about Italy.

The results given in tables 1 & 2, are based on :

- the Italian input-output table of 1972 (the 16 sector version, for simplicity), excluding services not on sale (sector 16 : public administration, etc...) for obvious reasons ;
- the Italian industrial census data on employment, with reference to 25 October 1971 (last census), plus other data on employment referring to 1972 ;
- the composition of Italian imports from LDC's of competitive manufactures products in 1972 (source : OECD).

The use of the 1972 input-output table (latest available) already points out some limits of the results, since this table does not take into account the changes in the structure of the Italian economy which occurred after the 1973 oil crisis and in the more recent years of depression. This table, furthermore, is an up-dating of the 1970 table, and no new table based on direct data has so far been announced.

(1) Although the responsibility for the results is mine, help in the calculations was provided by Miss Giovanna Tagliabue, Associated prof. in the University of Trento and in the State University of Milan, Italy.

Moreover, input-output analysis implies "linearity" for the results which are obtained, which seems quite unrealistic for examining negative effects on employment, particularly taking into account the many features of "rigidity" which affect the Italian labour market. Thus, the results should be interpreted with great care, taking these (and other remarks which will be presented later) well in mind.

Contrary to what has been done in other exercises for other EEC countries, only imports are considered. The reason is that it was not felt realistic enough to assume that an increase of imports from LDC's would be followed by an expansion of Italian exports to LDC's. Taking into account the huge balance of payments deficit of non-OPEC LDC's on the one hand, and the possibility for these countries anyhow to use their export receipts to buy goods and services in industrialized countries different from Italy, no assumption about an increase of Italian exports was introduced.

It is possible, obviously, to introduce also assumptions about an increase of Italian exports in a later stage, but perhaps this could be better done at a higher level (e.g. considering the EEC as a whole).

Two sets of calculations are presented. The first one refers to an increase of Italian imports in "textiles, clothing, leather and shoes", while the second refers to a general expansion of Italian imports of competitive manufactured products coming from LDC's.

i) Employment effects of an increase of Italian competitive imports of "textiles, clothing, leather and shoes"

The results presented in table 1 are based on the assumption that an increase of Italian imports of "textiles, clothing, leather and shoes" equal to 100 billion liras (in 1972 prices) would displace internal production in satisfying internal demand by an equal amount. Input-output analysis allows then a calculation of the direct and indirect effects on internal production (not presented here) and on employment, which are given in table 1. (Subject, of course, to the restrictive assumptions briefly discussed before).

Italian imports of these products in 1972 from LDC's amounted to 154,9 million dollars. Thus (taking into account the 1972 exchange rate), 100 billion liras means more or less a doubling of Italian imports of "textiles, clothing, leather and shoes" from LDC's, with reference to the 1972 situation.

(Alternatively, the results of table 1 could be the positive employment effects for the Italian economy deriving from cutting to zero all Italian competitive imports from LDC's of the products under consideration. Looking at the problem from this point of view, however, the exclusion of any consideration about Italian exports to LDC's becomes more crucial, with respect to what was said before).

Table 1

Employment effects of an increase of competitive imports of "textiles, clothing, leather and shoes" equal to 100 billion liras.

Sectors	Number of workers
1. Agriculture, forestry and fishing	125
2. Energy products	172
3. Iron, steel and non-ferrous metals & minerals	42
4. Non-metallic minerals and manufactures	50
5. Chemicals	472
6. Machinery and mechanical products	183
7. Transport equipment	13
8. Food, beverages and tobacco	57
9. Textiles, clothing, leather and shoes	22.587
10. Wood, paper, rubber and other manufactures	545
11. Constructions and public works	66
12. Hotels and commerce	272
13. Transport and communications	492
14. Insurances and banking	327
15. Other services	121
16. Services not on sale (public administration, etc...)	-
TOTAL EMPLOYMENT DISPLACED	25.524

For explanations, see the text.

ii) Employment effects of an increase of Italian competitive imports from LDC's equal to 500 billion liras

The results presented in table 2 are based on the assumption that Italian imports from LDC's of competitive manufactured products would increase by 500 billion liras (at 1972 prices).

Following the Italian input-output classification, imports of competitive manufactured products (SITC 5, 6, 7, 8 excluding 67 (iron and steel) and 68 (non-ferrous metals) in 1972 were as follows :

5. Chemicals	35	million dollars
6. Machinery and mechanical products	46.3	" "
7. Transport equipment	23.5	" "
9. Textiles, clothing, leather and shoes	154.9	" "
10. Wood, paper, rubber and other manuf.	41.7	" "
thus totalling	<u>301.4</u>	million dollars

which is 6.6 % of total Italian imports from LDC's in that same year (4,601 million dollars) (2).

500 billion liras extra imports of competitive manufactured products from LDC's (at 1972 prices), would mean an increase with respect to the situation of that year of 250 %, approximately (taking into account the exchange rate lira-dollar of 1972). This might be considered as exaggerated, but one should also take into account how little "open" was the Italian economy in 1972 to competitive imports of manufactured products from LDC's. In 1975 imports of SITC products 5, 6 (excluding 67 & 68), 7 and 8 amounted to 574 million dollars, and in 1976 and 1977 they constantly increased (in part, of course, as a consequence of inflation and of the devaluation of the lira with respect to the 1972 situation vis-à-vis the dollar).

(2) For a more up-to date picture of Italian imports from LDC's see :
C. Secchi, "Le Importazioni italiana dai Paesi sottosviluppati con particolare riferimento ai prodotti manufatti", L'Industria, n. 2-3, 1977 (available c/o Mr J.L. Lacroix).

Table 2

Employment effects of an increase of competitive imports from LDC's equal to 500 billion Liras

Sectors	Number of workers
1. Agriculture, forestry and fishing	676
2. Energy products	1,214
3. Iron, steel and non-ferrous metals & minerals	2,659
4. Non-metallic minerals and manufactures	593
5. Chemicals	7,162
6. Machinery and mechanical products	15,859
7. Transport equipment	3,578
8. Food, beverages and tobacco	259
9. Textiles, clothing, leather and shoes	58,498
10. Wood, paper, rubber and other manufactures	13,190
11. Constructions and public works	409
12. Hotels and commerce	1,103
13. Transport and communications	2,989
14. Insurances and banking	1,477
15. Other services	701
16. Services not on sale (public administration, etc...)	-
TOTAL EMPLOYMENT DISPLACED	110,367

For explanations, see the text.

The results given in table 2 are based on the assumption that the 500 billion liras extra imports of competitive manufactured products from LDC's would have the same structure per sector as in the 1972 actual case presented above, and that they would displace internal production by an equal amount (similarly to what was done ad i).

A comparison with the results obtained by prof. V. Van Rompuy (3) is quite interesting. In the case of Belgium, for 1 billion belgian francs (at 1970 prices) extra competitive imports from LDC's, there would result a loss of 2,084 jobs. At the exchange rate lira/f.b. of 1970, the case of 500 billion liras would mean 40 times as much, that is 83,360 jobs. This is quite less than the figure given for Italy (with reference, however, to 1972) of 110,367 jobs (table 2). The difference (27,007 jobs) is almost fully explained by heavier employment consequences in the case of Italy on the "textile, clothing, leather and shoes" sector (25,178 jobs more in Italy would be lost than in Belgium under the assumption of 500 billion liras extra imports). There are differences also for other sectors (e.g. agriculture, etc..., Machinery and mechanical products, transport equipment), while for others (e.g. chemicals) the results are quite similar.

Such a comparison is anyhow quite interesting, notwithstanding the different structure of the two countries (i.e. input-output tables) and the different composition of their foreign trade with LDC's for the products considered. Perhaps, a general comparison at the EEC level could give - apart from inevitable variations from Country to Country - some constant trends, well deserving some further analysis.

(3) Note sur l'incidence pour l'économie belge d'une augmentation du commerce extérieur avec les PVD.

Note on Estimates of Employment Effects of an Increasing
Division of Labour with Developing Countries, FRG

In Germany, estimates of employment effects due to adjustment for trade with developing countries have been carried out by the Institut für Weltwirtschaft, Kiel and the Deutsche Institut für Wirtschaftsforschung, Berlin. The relevant references are:

- (1) G. Fels, E.-J. Horn, Der Wandel der Industriestruktur im Zuge der weltwirtschaftlichen Integration der Entwicklungsländer. "Die Weltwirtschaft", Tübingen 1972, Heft 1.
- (2) H.H. Glismann, Die gesamtwirtschaftlichen Kosten der Protektion. "Kieler Diskussionsbeiträge", Kiel 1974.
- (3) H. Dicke, H.H. Glismann, E.-J. Horn, A.D. Neu, Beschäftigungswirkungen einer verstärkten Arbeitsteilung zwischen der Bundesrepublik und den Entwicklungsländern. "Kieler Studien", Nr. 137, Tübingen 1976.
- (4) G. Fels, E.-J. Horn, K.-W. Schatz, F. Wolter, Analyse und Erfordernisse einer Aussparungsstrategie im Vergleich zu einer Universalstrategie. Opinion submitted to the Federal Ministry for Research and Technology. Kiel 1976 (mimeo.).
- (5) F. Wolter, Adjusting to Imports from Developing Countries. In: H. Giersch (ed.), Reshaping the World Economic Order. Tübingen 1977.
- (6) D. Schumacher, Verstärkter Handel mit der Dritten Welt: Eher Umsetzung als Freisetzung deutscher Arbeitskräfte. "DIW-Wochenbericht", 5/1977. Berlin, 1977.
- (7) D. Schumacher, Beschäftigungswirkungen von Importen aus Entwicklungsländern nicht dramatisieren. "DIW-Wochenbericht", 1/78, Berlin, 1978.
- (8) D. Schumacher, 800 000 Beschäftigte für den Export in Entwicklungsländern beschäftigt. "DIW-Wochenbericht", 5/78. Berlin 1978.

The Kiel projections of net displacement effects range until 1985 and cover West Germany's manufacturing sector split up into about 30 branches¹. Methodologically, these estimates are in principle based on extrapolations of regionalized import and export as well as industryspecific productivity trends, subject to various assumptions (for details see pp. A4 - A6 and (3) pp. 88 seq.).

The DIW-projections of displacement effects range until 1980 and cover four industrial sectors (precision and optical goods, leather products, textiles and clothing). The estimates by means of input-output techniques are based on trend extrapolations of imports, the price and commodity structure of 1972 and the productivity structure of 1976 (for details see (6), p. 36). In addition, DIW has published ex-post calculations of employment effects of Germany's trade with developing countries according to economic sectors and occupation (7), (8).

Obviously, the Kiel and DIW estimates are difficult to compare. However, the calculations of both Institutes indicate substantial inter-industrial migration caused by an increasing division of labour between Germany and the developing countries.

1

In depth estimates are available for precision and optical goods, textiles and clothing in (3).

Table 12 : Change in the structure of industrial employment in the Federal Republic of Germany up to 1985 as a result of external trade

Variant I

'000 employees

Sector	Employment effects due to external trade								
	overall	due to trade with		due to exports			due to imports		
		ICs ^a	DCs ^b	overall	ICs ^a	DCs ^b	overall	ICs ^a	DCs ^b
Basic materials and producer goods indust.	- 70,9	- 84,8	13,9	337,3	273,2	64,1	- 408,2	- 358,0	- 50,2
non-metallic minerals	- 7,5	- 10,1	2,6	13,3	10,6	2,7	- 20,8	- 20,7	- 0,1
Iron and steel industries	- 31,5	- 22,0	- 9,5	56,4	27,0	29,4	- 87,9	- 49,0	- 38,9
Iron, steel and non-ferrous metals	0,4	0,2	0,2	6,4	4,9	1,5	- 6,0	- 4,7	- 1,3
Smelting, rolling and cold-rolling of steel	- 9,5	- 11,2	1,7	71,6	9,9	1,7	- 21,1	- 21,1	0
Non-ferrous metal	- 21,0	- 22,5	1,5	27,1	25,6	1,5	- 48,1	- 48,1	0
Chemical industry	7,8	- 10,0	17,8	169,5	146,7	22,8	161,7	- 156,7	- 5,0
Sawmills and wood-working	- 4,4	- 0,5	- 3,9	4,6	4,5	0,1	- 9,0	- 5,0	- 4,0
Pulp, paper, etc.	- 2,1	- 5,1	3,0	15,5	12,4	3,1	- 17,6	- 17,5	- 0,1
Rubber and plastics	- 3,1	- 3,6	0,5	32,9	31,6	1,3	- 36,0	- 35,2	- 0,8
Capital goods ind. ^d	- 219,7	- 85,3	- 134,4	1335,5	1020,9	314,6	-1555,2	-1106,2	- 449,0
Steel and light metal construction	- 17,6	- 17,3	- 0,3	13,2	13,2	0	- 30,8	- 30,5	- 0,3
Steel construction	3,6	7,4	- 3,8	20,0	17,9	2,1	- 16,4	- 10,5	- 5,9
Mechanical engineer.	364,8	169,7	195,1	482,8	286,0	196,8	- 118,0	- 116,3	- 1,7
Road vehicle construct.	- 43,0	- 32,1	- 10,9	372,3	322,1	50,2	- 415,3	- 354,2	- 61,1
Machine engineering	- 396,5	- 155,5	- 241,0	325,5	266,8	58,7	- 722,0	- 422,3	- 299,7
Precision engineering and optical machinery	- 87,6	- 35,6	- 52,0	27,6	23,0	4,6	- 115,2	- 58,6	- 56,6
Iron goods, sheet metal and hardware	- 43,4	- 21,9	- 21,5	94,1	91,9	2,2	- 137,5	- 113,8	- 23,7
Consumer goods industries	- 416,0	- 96,5	- 319,5	532,5	518,4	14,1	- 948,5	- 614,9	- 333,6
Food and drink industry	- 49,7	- 34,9	- 14,8	13,8	13,1	0,7	- 63,5	- 48,0	- 15,5
Glass industry	- 36,2	- 32,4	- 3,8	9,8	9,5	0,3	- 46,0	- 41,9	- 4,1
Wood processing industries	4,1	8,8	- 4,7	34,8	34,5	0,3	- 30,7	- 25,7	- 5,0
Machinery, etc.	- 34,4	- 25,4	- 9,0	9,2	9,0	0,2	- 43,6	- 34,4	- 9,2
Paper and pulp	- 3,3	- 2,6	- 0,7	17,7	16,8	0,9	- 21,0	- 19,4	- 1,6
Printing, etc.	10,8	10,4	0,4	24,5	24,0	0,5	- 13,7	- 13,6	- 0,1
Processing of leather	87,2	92,6	- 5,4	281,7	278,0	3,7	- 194,5	- 185,4	- 9,1
Leather production	- 2,8	- 2,3	- 0,5	1,4	1,4	0	- 4,2	- 3,7	- 0,5
Leather finishing	- 32,4	- 8,0	- 24,4	1,0	0,9	0,1	- 33,4	- 8,9	- 24,5
Textiles industry	- 50,7	- 31,5	- 19,2	10,6	10,3	0,3	- 61,3	- 41,3	- 19,9
Textile industry	- 48,8	- 14,7	- 34,1	77,6	71,0	6,6	- 126,4	- 85,7	- 40,7
Clothing industry	- 259,8	- 56,5	- 203,3	50,4	49,9	0,5	- 310,2	- 106,4	- 203,8
Food, beverages and tobacco industry	14,7	20,7	- 6,0	97,4	90,0	7,4	- 82,7	- 69,3	- 13,4
Manufacturing etc.	- 691,9	- 255,9	- 446,0	2302,7	1902,5	400,2	-2994,6	-2162,4	- 846,2

^a Industrialized countries excl. state trading countries ^b Developing countries ^c Excl. mineral oil processing ^d Excl. shipbuilding, aircraft construction, office machinery and data processing equipment

Source: Statistisches Bundesamt, Fachserie G, Ausschnhandel, Reihe 7, Sonderbeiträge - Fachserie M, Löhne, Preise, Wirtschaftsrechnungen, Reihe 1 - Fachserie D, Reihe 1, 1. d. j. - Eigene Berechnungen und Schätzungen

Table 13 - Change in the structure of industrial employment in the Federal Republic of Germany up to 1985 as a result of external trade

Sector	Employment effects due to external trade								
	overall	due to trade		due to exports			due to imports		
		ICs ^a	DCs ^b	overall	ICs ^a	DCs ^b	overall	ICs ^a	DCs ^b
Non-metallic minerals	- 4,1	- 4,9	0,8	19,7	15,9	3,7	- 23,8	- 20,9	- 2,9
Iron and steel industries	- 3,4	- 4,6	1,2	6,1	4,8	1,2	- 9,5	- 9,4	- 0,1
Iron, steel and metal- lic iron foundries	- 10,0	- 7,0	- 3,0	17,8	8,5	9,3	- 27,8	- 15,5	- 12,3
Pressing, cold rolling and cold-rolling of steel	0,4	0,2	0,2	6,1	4,7	1,4	- 5,7	- 4,5	- 1,2
Non-ferrous metals	- 14,6	- 17,2	2,6	17,8	15,2	2,6	- 32,4	- 32,4	0
Chemical industry	- 17,2	- 18,4	1,2	22,2	20,9	1,2	- 39,3	- 39,3	0
Sawmills and wood works	1,3	- 1,7	2,9	28,1	24,3	3,8	- 26,8	- 26,0	- 0,8
Pulp paper, etc	- 6,8	- 0,8	- 6,0	7,1	6,9	0,2	- 13,9	- 7,7	- 6,2
Rubber and plastics	- 3,5	- 8,5	5,0	25,8	20,6	5,2	- 29,3	- 29,1	- 0,2
Capital goods industries & Steel and light metal construction	- 2,4	- 2,8	0,4	25,7	24,7	1,0	- 28,1	- 27,5	- 0,6
Steel re-rolling	- 5,6	- 2,2	- 3,5	34,3	26,2	8,1	- 40,0	- 28,4	- 11,5
Mechanical engineering	- 8,3	- 8,2	- 0,1	6,2	6,2	0	- 14,6	- 14,4	- 0,1
Road vehicle construct.	2,5	5,1	- 2,6	13,8	12,4	1,5	- 11,3	- 7,3	- 4,1
Electrical engineering	32,4	15,1	17,3	42,8	25,4	17,5	- 10,5	- 10,3	- 0,2
Precision engineering and optical industr.	- 7,0	- 5,3	- 1,8	60,9	52,7	8,2	- 68,0	- 58,0	- 10,0
Iron goods, sheet metal and hardware	- 35,2	- 13,8	- 21,4	28,9	23,7	5,2	- 64,0	- 37,4	- 26,6
Consumer goods industries	- 55,5	- 22,6	- 33,0	17,5	14,6	2,9	- 1,0	- 37,1	- 35,9
Fine ceramics industry	- 10,9	- 5,5	- 5,4	23,7	23,1	0,6	34,6	- 28,6	- 6,0
Glass industry	- 23,2	- 5,4	- 17,8	29,7	28,9	0,8	- 52,9	- 34,3	- 18,6
Wood processing industries	- 67,9	- 47,7	- 20,2	18,8	17,9	1,0	- 86,7	- 65,5	- 21,2
Manuscript indus- tries, etc.	- 39,8	- 35,6	- 4,2	10,8	10,4	0,3	- 50,5	- 46,0	- 4,5
Printing, etc.	1,8	3,8	- 2,0	14,9	14,7	0,1	- 13,1	- 11,0	- 2,1
Processing of plastics	- 64,8	- 47,9	- 17,0	17,3	17,0	0,4	- 82,2	- 64,8	- 17,3
Leather production	- 2,6	- 2,0	- 0,5	13,7	13,0	0,7	- 16,3	- 15,0	- 1,2
Leather processing	5,1	5,0	0,2	11,7	11,4	0,2	- 6,5	- 6,5	0
Footwear industry	44,8	47,6	- 2,8	144,8	142,9	1,9	-100,0	- 95,3	- 4,7
Textile industry	- 32,4	- 26,6	- 5,8	16,2	16,2	0	- 48,6	- 42,8	- 5,8
Clothing industry	- 97,0	- 23,9	- 73,0	3,0	2,7	0,3	-100,0	- 26,6	- 73,3
Food, beverages and tobacco industry	- 82,7	- 51,4	- 31,3	17,3	16,8	0,5	-100,0	- 68,2	- 31,8
Manufacturing, i.d.	- 12,4	- 3,7	- 8,7	19,7	18,0	1,7	- 32,1	- 21,8	- 10,3
	- 83,7	- 18,2	- 65,5	16,2	16,1	0,2	-100,0	- 34,3	- 65,7
	3,0	4,2	- 1,2	19,9	18,4	1,5	- 16,9	- 14,2	- 2,7
	- 8,8	- 3,1	- 5,7	29,2	24,1	5,1	- 38,0	- 27,2	- 10,7

^a Industrialized countries and state trading countries ^b Developing countries ^c Excl. mineral oil processing ^d Excl. shipbuilding, aircraft construction, office machinery and data processing equipment

Source : See Table 1

Table A 6 - West German Industry: Projected Displacement and Employment Effects of Trade with Developing Countries 1973-1985^a as Compared to Displacement Effects of Total Import Growth and Productivity Changes 1962-1975

Industries	Employees	Displacement due to increasing imports from LDCs	Employment due to increasing exports to LDCs	Displacement due to total import growth	Displacement due to import growth from LDCs	Displacement due to change in labour productivity	RCA ^d Average	RCA ^d Average	
	1975	1973-1985 ^a	1973-1985 ^a	1962-1975 ^b	1962-1975 ^b	1962-1975 ^c	1962-64	1973-75	
	1,000 employees								
Stones and earthen goods	194.8	0.1	2.7	22.4	0.5	181.7	- 77.2	26.7	
Iron and steel	310.7	38.9	31.1	67.5	1.2	316.3	412.2	175.3	
Iron and steel foundries	97.3	1.3	1.5	5.6	0.0	62.6	489.8	301.3	
Non-ferrous metals	111.5	0	1.5	49.5	2.9	77.3	-305.1	-230.0	
Chemicals	616.8	5.0	22.8	165.3	2.9	802.1	18.8	70.4	
Wood, pulp, paper, paperboard	116.8	4.1	3.2	50.3	2.4	168.0	-298.8	-176.4	
Rubber and asbestos manufacture	115.4	0.8	1.3	33.0	0.6	94.9	125.8	101.1	
Structural and light metal engineering	196.4	0.3	0	10.8	0.0	101.4	701.0	472.0	
Mechanical engineering	1,106.9	1.7	196.8	168.2	5.1	549.0	505.0	272.4	
Transport equipment	684.0	61.1	50.2	242.6	3.6	486.4	379.2	251.1	
Electrical engineering	993.2	293.7	58.7	188.9	11.7	1,103.3	389.3	80.6	
Precision and optical goods, watches	152.0	36.6	4.6	54.5	3.9	153.1	365.3	46.3	
Structural steel products	135.2	5.9	2.1	8.9	0.3	83.8	514.5	205.8	
Iron, sheet and metal goods	336.1	23.7	2.2	51.3	2.0	275.6	343.3	121.3	
Fine ceramics, glass, glass products	140.4	19.6	1.0	37.1	0.8	177.7	409.9	85.2	
Woodwork	217.2	5.0	-0.3	24.8	1.8	224.4	- 75.7	-124.2	
Musical instruments, toys etc.	49.7	9.2	0.2	33.0	6.9	28.4	- 54.9	-221.7	
Paper and pulp manufacture	118.8	1.6	0.9	12.5	0.2	89.0	364.0	106.4	
Printing	194.5	0.1	0.5	9.6	0.2	133.6	219.2	161.1	
Plastic products	178.0	9.1	3.7	35.4	1.1	240.1	96.3	12.6	
Leather, leather products, shoes	94.4	44.5	0.4	57.8	7.4	46.1	-121.3	-293.2	
Textiles	356.9	40.7	6.6	141.8	24.2	463.4	-177.8	-202.3	
Clothing	288.3	203.8	0.5	144.6	45.9	160.6	-267.7	-447.3	
Food, beverages, tobacco	461.5	13.4	7.4	69.0	7.2	426.4	-307.2	-234.3	
Manufacturing		840.2 ^f	400.5 ^f	1,684.4	132.8	6,531.1			

^a According to trend extrapolations carried out by Fels, Horn, Schatz, Wolter. For details see para. 26. - ^b Calculated as $DM_{1975}^i * (M_{1975}^i - M_{1962}^i) : LP_{1975}^i$ where D-displacement effect; $M_{1975(62)}^i$ = Imports of industry i in 1975 (1962). LP_{1975}^i = labour productivity of industry i in 1975 measured as sales per employee. - ^c Calculated as $DI_{1962-75}^i = (NPV_{1975}^i \cdot H_{1962}^i - NPV_{1975}^i) : E_{1975}^i \cdot H_{1975}^i$ where NPV_{1975}^i = volume of net production in 1970 prices of industry i in 1975. $H_{1962(75)}^i$ = labour productivity of industry i in 1962 (1975) as measured by volume of net production per hours worked; E_{1975}^i = employees of industry i in 1975; H_{1975}^i = hours worked in industry i in 1975. - ^d (revealed comparative advantage in trade with developing countries. For measurement see para. 16. - ^e Except mineral oil industry.

Source: Fels, Horn, Schatz, Wolter, op.cit. - Statistisches Bundesamt, Fachserie G, Reihe 7, various issues. - Rolf Krengel u. Mitarb., Produktionsvolumen und -potential, Produktionsfaktoren der Industrie im Gebiet der Bundesrepublik Deutschland einschließlich Saarland und Berlin (West), Statistische Kennziffern, Berlin, various issues. - Own calculations.

Method used for projecting employment effects

In order to be able to forecast the future structure of the Federal Republic's external trade and determine the number of workers who will be displaced in the course of the structural changes, trend estimates were produced for the Federal Republic's industry-specific imports and exports in its trade with industrialized and developing countries and for the labour productivity of the individual sectors. In these trend extrapolations time is an exogenous variable; it is anticipated that the overall pattern will be the same as in the past, this applying in particular to the future economic policy measures of the Federal Republic and its trading partners.

The employment effects that will accompany the structural changes up to 1985 were broken down into two components : the first shows what employment changes will be due to the anticipated increases in imports and the second shows what increase there will be in employment as a result of the trend of exports. The balance of these two components is seen as the structural change due to external trade. The employment effects are calculated according to the following formulae :

(1)

$$B_1^M = \frac{M_{i,t} - M_{i,t-1}}{AP_{i,t}}$$

(2)

$$B_1^X = \frac{X_{i,t} - X_{i,t-1}}{AP_{i,t}}$$

where

B_1 = the change in the number of persons employed in sector 1

M = imports

X = exports

AP = labour productivity

t = forecast year

$t-1$ = last year of observation

It is assumed in this method of calculation that a given value of additional imports displaces a given value of domestic production. The forecast values for 1985 were calculated separately for imports from developing and from industrialized countries. The same procedure was followed for exports. An exponential trend function was employed:

$$y = ae^{bt},$$

where y represents imports or exports as appropriate, a is a constant, e is the base figure of the natural logarithms, b is the regression coefficient and t represents time.

The labour productivity of the individual sectors of German industry was measured as sales per employee. The values for 1985 were obtained by extrapolating the 1974 values using the average annual rate of change per man-hour between 1962 and 1974; the values for (the recession year) 1974 were adjusted first to allow for the under-utilization of plant capacity. The index of labour productivity per man-hour was preferred to the corresponding index per person employed since the latter is comparatively fluctuation - reactive. Possible cuts in working hours over the projection period were disregarded.

A number of problems had to be allowed for. These concern (1) the length of the period of observation of trade with industrialized and developing countries; (2) the productivity or marginal labour; (3) extraordinarily large increases in imports; (4) calculation using nominal values, and (5) the choice of industrial sectors.

(1) While 1985 trade with industrialized countries was estimated using the longest possible observation period, namely 1962-74, the shorter period of 1968-74 was used for the developing countries.

This was done because the developing countries have been exporting industrial goods (to the Federal Republic) in appreciable quantities only since the end of the sixties. It was also feared that rapidly increasing imports with a low base level (base effect) might lead to an over-estimation of the employment effects.

(2) It was assumed that the labour productivity of displaced labour is (one-third) less than the average productivity of the labour force in the sector in question. This seems plausible because one can assume below-average labour productivity for shrinking firms and displaced labour.

(3) In some sectors imports from developing countries grew extraordinarily rapidly between 1968 and 1974. As a restriction on the forecast to 1985 an average annual increase of 50 % was incorporated. This is plausible for two reasons. Firstly, experience shows that the growth of imports slows down in relative terms when they reach a fairly high level (and the same applies to exports). Secondly, it is to be expected that domestic producers will demand import barriers on grounds of market disruption if imports do increase to a high level very rapidly.

(4) The calculations were carried out with nominal values since in the industrial nomenclature that was used there are no price indices for German external trade broken down according to industrialized and developing countries. With this method it is assumed that the relative prices for imports, exports and sales will follow the same trend as in the past. The general inflation component cancels itself out as both the denominator and the numerator contain nominal values.

(5) Aircraft construction and shipbuilding and the manufacture of office machinery and data processing equipment were not taken into consideration in this calculation. In the latter case the empirical data available covered too short a period, and in the case of aircraft construction and shipbuilding it was not possible to calculate the necessary labour productivity figures.

EMPLOYMENT EFFECTS ¹ OF THE INCREASE IN IMPORTS OF SELECTED
CATEGORIES OF GOODS FROM DEVELOPING COUNTRIES 1976 TO 1980 ²

in numbers employed

Sector *	Direct and indirect effects					Sector effect on the four sectors ³
	precision engineering and office industry	leather industry	Textile industry	clothing industry	The four sectors together	
Landw., Forstwirtschaft, Fischerei	-285	-196	-174	-1 194	-1 849	-
Einkaufswirtschaft	-49	-15	-60	-237	-360	-
Gas- und Wasserwirtschaft	-19	-7	-19	-67	-112	-
Bergbau	-70	-19	-67	-243	-400	-
Industrie der Steine und Erden	-24	-5	-13	-60	-101	-
Eisenerzbergbau	-146	-14	-19	-169	-347	-
Eisen-, Stahl- und Tempergußereien	-53	-3	-6	-32	-91	-
Zurichtung und Kaltwalzwerke	-17	-6	-7	-104	-134	-
NE-Metallindustrie	-118	-8	-15	-68	-279	-
Chemische Industrie	-200	-168	-651	-1 524	-2 553	-
Mineralerzeugung	-11	-5	-14	-56	-85	-
Kautschuk- u. abstraktverarbeitende Industrie	-36	-59	-30	-266	-391	-
Spinnerei u. Holzverarbeitende Industrie	-23	-6	-6	-43	-78	-
Zellstoff- u. papiererzeugende Industrie	-24	-20	-26	-139	-209	-
Stahlbau	-17	-4	-8	-47	-75	-
Maschinenbau	-254	-33	-91	-423	-801	-
Strassenfahrzeugbau	-17	-5	-12	-94	-128	-
Luftfahrzeugbau	-1	-0	-1	-3	-5	-
Schiffbau	-1	-0	-1	-3	-5	-
Elektronische Industrie	-524	-23	-54	-277	-878	-
Femmel-, optische u. optische Industrie	-11 071	-2	-6	-30	-11 110	-10 608
Stahlverformung	-115	-10	-10	-51	-186	-
EdM-Industrie	-136	-92	-81	-750	-1 059	-
Feinkeramische Industrie	-13	-8	-4	-27	-53	-
Glasindustrie	-126	-4	-12	-50	-192	-
Holzverarbeitende Industrie	-40	-19	-26	-405	-490	-
Maschinen- und Spielwaren-Industrie	-30	-2	-1	-13	-46	-
Papier- u. papierverarbeitende Industrie	-84	-37	-102	-643	-867	-
Druck- u. Vertriebsindustrie	-78	-24	-45	-396	-543	-
Kunststoffverarbeitende Industrie	-337	-140	-34	-477	-987	-
Leatherindustrie	-48	-4 838	-15	-237	-5 139	-4 240
Textilindustrie	-58	-103	-7 930	-15 317	-23 408	-6 675
Polymersindustrie	-19	-7	-18	-70 371	-70 416	-69 976
Nahrungs- und Genussmittelindustrien	-63	-22	47	-331	-463	-
Handwerk u. sonst. produzier. Gewerbe	-640	-158	-218	-1 988	-3 004	-
Baumgewerbe	-53	-16	-33	-205	-307	-
Großhandel	-582	-219	-475	-3 111	-4 387	-
Einzelhandel	-47	-27	-52	372	-492	-
Eisenbahnen	-124	-43	-106	-595	-869	-
Straßen-, Wasserstraßen und Hafen	-14	-6	-15	-73	-108	-
Umlaufverkehr	-153	-51	-139	-718	-1 061	-
Nachrichtenübermittlung (Post)	-234	-67	-126	-1 045	-1 471	-
Kreditinstitute u. Versicherungsgewerbe	-126	-66	-137	-897	-1 226	-
Wohnungsvermittlung	-0	-0	-0	-0	-0	-
Sonstige Dienstleistungen	-607	-247	-545	-4 543	-6 021	-
Staat (einschl. Sozialversicherung)	-111	-48	-99	-775	-1 033	-
Private Haushalte	0	0	0	0	0	-
Insgesamt	-16 959	-6 852	-11 546	-108 470	-143 828	-91 439

¹ Corresponding to 1976 labour productivity

² Growth rate of imports estimated according to real growth between 1972 and 1975; the price indices for the Federal Republic's imports from non-EEC countries were used as deflators (Statistisches Bundesamt, Fachserie M, Preise, Löhne, Wirtschaftsrechnungen, Reihe 1, Preise und Preisindizes für Außenhandelsgüter, Einfuhr- und Ausfuhrpreise, 1975).

³ Labour coefficient multiplied by the increase in imports.

Source: DIW calculations based on the sources quoted above.

* See translation next page.

Agriculture, forestry and fisheries
Electricity
Gas and water
Mining
Non-metallic minerals industry
Iron and steel industry
Iron, steel and malleable iron foundries
Drawing, cold-rolling and cold-folding of steel
Non-ferrous metals industry
Chemical industry
Mineral oil processing
Rubber and asbestos industry
Sawmills and wood-working industry
Pulp and paper industry
Steel construction
Mechanical engineering
Road vehicle construction
Aircraft construction
Shipbuilding
Electrical engineering
Precision engineering and optical industry
Steel reduction
Iron goods, sheet metal and hardware industry
Fine ceramics industry
Glass industry
Wood-using industry
Musical instruments and toy industry
Paper and pulp-using industry
Plastics industry
Leather industry
Textile industry
Clothing industry
Food, beverages and tobacco industry
Crafts and other small scale productive industry
Building trade
Wholesale trade
Retail trade
Railways
Shipping, waterways and ports
Other transport
Communications (posts)
Credit institution and insurance business
Rented housing
Other services
State (including social insurance)
Private households
Total

Consumer Benefits and Trade Liberalisation

Consumer benefits from freer trade and consumer costs from protection are not incidental side effect of such policies but central to any measure of economic welfare. Lower (or higher) prices, greater (or lesser) availability of goods are after all amongst the most obvious ways of transmitting changes in real incomes. The various effects of freer trade on consumers can be summarised as follows:

(i) consumer "surplus"; much economic analysis tends to focus on the gains to society as a whole from an expansion of consumption opportunities and greater productive efficiency, both seen in purely static terms (consumer and producer "surplus"). These gains are likely to be small in relation to the distributional effects of tariff (or NTB) changes as long as the tariff rate, or tariff equivalent, is small, as is the case now for most tariff protected manufactures.¹ This arises from the mathematical relationships involved which determine that consumer - and producer - "surplus" is a function of the square of relative price changes. Consumer "surplus" considerations are therefore only significant for highly protected items like clothing and agriculture where domestic prices.

(ii) dynamic factors; consumers benefit to the extent that economies of scale generated through trade are passed on in lower

¹ This is also a gross, rather than a net benefit to society since it is necessary to deduct the costs involved as producers move to more efficient activities, though these are also likely to be small if tariffs are small.

prices. Economies of scale also lead to concentration of ownership which is now very advanced in many European industries. In the absence of competition from trade, or effective anti monopoly policy, there will follow the abuses and inefficiencies one would expect from monopoly power. This is not a consideration which applies with particular force to "labour intensive" processes in which ldc's have developed a comparative advantage, making shoes and clothing for example, since here small firms predominate. But it is still relevant especially where restrictive practices exist. It also provides a source of (very unwelcome!) price competition for the monopolistic manmade fibre producers through competition in the end product market.

(iii) price stability; to the extent that inflation is not purely a monetary phenomenon, increases in imported, final or intermediate product, prices can influence the rate of inflation. The effects are likely to be small in relation to other influences on overall inflation (but not necessarily small in relation to the costs of trade liberalisation). However if one adheres to a broadly 'cost-push' view of inflation small initial changes originating in higher import (or import competing) prices can have a powerful 'ripple effect' as mark-ups are added and product price increases are incorporated in wage demands.

(iv) distribution effects; trade liberalisation also entails a straight transfer from producers to consumers. Lower consumer prices have their counterpart in lower profits and wages in the

import competing industry. This could be regressive or progressive (in a fiscal sense) depending upon the product concerned. In the case of agriculture the effects of trade liberalisation are usually progressive since protection represents a form of consumption tax on a basic necessity to subsidise agricultural landowners (and workers). Trade liberalisation of clothing and shoes is also probably progressive because consumption of these items tends to be relatively high in low income groups. It is also important to remember that we are not only dealing with final products but also intermediate inputs. Part of the cost (i.e. that which cannot be fully passed on) of protecting steel makers has to be borne by steel-using industries: ^{of} yarn makers by clothing manufacturers. This effect can be measured in terms of changes in effective protection.

There are two basic lines of criticism normally levelled at those who wish to give consumer interests central importance in any consideration of trade policy. Critics say,

(A) consumer benefits are absorbed by importers and other intermediaries.

(B) these benefits are largely "irrelevant" under conditions of large scale unemployment.

(C) even if A or B are false, "political reality" dictates that producer interests have to be given greater weight.

A) Importers Margins: there is quite a lot of evidence, based on anecdote and also on serious research (at Tilburg for example) that import margins are higher than ^{mark-ups} on domestically produced goods. This, it is argued, leads to the gains from trade being absorbed not by final consumers but by specialist importers, owners of retail chains, insurers, shippers and export merchanting houses in the ldc's. Given genuinely greater uncertainty in international trade their margins are doubtless higher than for domestically produced goods. There are several reasons for doubting that anything more serious is involved:

(i) there must be a significant discernable advantage to consumers in buying 'cheap' imports, otherwise they would not buy them in increased quantities - and trade protection issues only arise when they do;

(ii) much of the evidence of higher importer margins relates to clothing yet these are possibly explained by restrictions on trade not the absence of them. The GSP system, with its highly restrictive tariff quotas on "sensitive" items effectively ensures that the gains accruing in the first weeks of every year do so as windfall profits to importers. Also the operation of 'voluntary export restrictions' and import restrictions effectively creates a semi-monopoly position for holders of licences. High importers' margins in these cases are an argument for less trade restriction not more.

(iii) even if importers pocket high margins on "cheap" imports in the short run, this cannot persist. New importers will get into the act and undercut the previous importers. Domestic producers, under competition from increased import volumes, will have to cut their prices and in turn force down import prices. That this happens in practice is well illustrated by the effects of a substantial growth of ldc garments imports in 1975/76 on clothing prices (and profit margins) in the Community. The effect may be blunted by powerful semi-monopolistic interests in importing and retailing but this is an argument for more active anti-monopoly policy not for giving importers the opportunities for higher mark-ups which they would derive from a system from import restriction.

B) Unemployment

Any discussion of consumer benefits (costs) and producer costs (benefits) needs to be firmly/^{set} in a macro economic context. The existence of unemployment at current levels and the need to remove it, is sometimes used as an argument for giving lower weight to consumer welfare considerations. However trade restrictions are always inflationary and the main reason/^{why} we currently have excessive overall unemployment is because of the inflation problem. Several major Western European countries, Germany, Britain within the IMF ceilings, and France under the Barre austerity plan, have established monetary growth ceilings designed to curb inflation, but creating as a direct consequence unemployment in excess of that which is 'structural' (due to immobility). If unemployment is created as an intentional biproduct of anti inflationary monetary and fiscal policy it would be totally illogical to use inflationary trade

protection as a means of countering it, unless there is overwhelming evidence that the unemployment produced in the industry concerned is of a special character. Some of us may feel that our governments have got their general priorities wrong but then our job is change their priorities not to pretend that these priorities don't exist.

There is one school of thought which would reject the above argument on the grounds that it is not inflation but the balance of payments which is the constraining factor preventing an expansion of European economies. This viewpoint is being pressed in the UK by the Cambridge school of economists. It is highly doubtful if in fact the balance of payments is the main constraint. The British government for example, largely for reasons of anti-inflationary policy, recently allowed the pound to float upwards against the weighted exchange rate of a basket of major currencies, in effect subsidising imports and taxing exports, and thereby creating unemployment in traded goods and service industries. Successive mark revaluations have had a similar and greater effect in Germany. Neither country's authorities, nor those of most other governments in the EEC can therefore legitimately use the balance of payments as an alibi for unemployment.

If they did, the correct response, other than devaluation, would be a general but temporary import curb, like the Italian import deposit scheme in 1975, or the British import surcharge in the mid 1960's. The main target would be imbalances on inter OECD, including Community, trade, not 'low cost' imports. With this in/^{mind} Lord Kaldor, one of the main

exponents of the Cambridge approach has recently set out the details of a system of 'ordered trade' designed to preserve a balance in trade in manufactures between the 13 main OECD economies including members of the Community. He ignores "low cost" imports, presumably for the reason that they are of trivial importance in terms of international monetary imbalance - most such countries anyway spend their earnings fairly quickly in Western markets.

C) Politics

If it is true that trade restrictions directly contradict and undermine government 'macro' economic policy, why do governments introduce them? Here we are in the realms of politics rather than economics. Taking their electors in the mass governments are more conscious of the grievances of the 95% who are employed and are concerned about rising prices than the 5% who are unemployed. Taking a particular 'micro' decision however the line-up of forces is quite different. A decision over whether or not to keep open a shirt factory and/or to restrict shirt imports will be preceded by lobbying by the National Union of Shirt Operatives (if there is one) and the National Federation of Shirt Makers both of whose members stand to gain or lose a good deal. But there is no National Association of Shirt Consumers. Consumer interests are likely to be ignored since the impact of the decision on the consumer price index is, at the margin, quite small. But this is not always the case. Resistance to food price increases is particularly strong and urban-based parties are very conscious of the political costs of giving too much to the farmers, at the expense of urban consumers.

Moreover the benefits from protectionist lobbying are affected by diminishing returns the more lobbies seek to obtain protection. Producer lobbies can only be truly effective in protectionist and price raising behaviour when they represent a small part of marketed output. When the share becomes large and is growing - as it is now with agriculture, textiles, clothing and shoes, steel, cars etc. - their activities are ultimately largely self cancelling. There are possible analogies developing with wage bargaining behaviour, where any disturbance of differentials is liable to trigger off a whole chain of claims, which eventually wipe out much of the initial gain in real terms. In such a circumstances governments begin to find that it runs counter to their overall policy objectives to make significant allowances for too many 'special cases'.

A Cost Benefit Approach

In order to try to make consumer benefits somewhat more concrete, methodologies have been developed to try to quantify the costs and benefits of trade policy decisions at an industry level, though these are, so far, primitive. The benefits of liberalisation are calculated in terms of consumer surplus which, as we have seen, is a static concept, understating the full magnitude of consumer gains. Costs are seen in terms of the output and therefore income, losses in a transitional period until resources can be redeployed. Arising from these calculations is ^{the} / policy implication, _{if} that/the benefits of liberalisation substantially outweigh costs than the losers can be compensated leaving a net gain to the community. This is not merely a theoretical welfare issue - in practice many workers do voluntarily accept cash redundancy payments when offered, as in recent cases of 'rationalisation' in the UK steel and car industries (though

there are hidden social problems - the younger, more mobile workers take the money even in a difficult job market; older more immobile, workers tend to cling to their jobs, knowing that redundancy could mean permanent unemployment).

Trying to put figures to these costs and benefits does however present considerable difficulty. Predictions of the effects of commercial policy decisions rely heavily on price elasticity measures (of demand and supply) which are notoriously unreliable. Where quantitative regulation of imports is involved it is necessary to have some idea of the implicit tariff, which is difficult to estimate from direct comparison of import and domestic prices when quality differences are important, and next to impossible when the restrictions are imposed by the exporter (as with VER's). The estimation of 'transitional' costs becomes difficult since redundancy inevitably creates a certain fraction of permanent unemployed, and the extent to which one stops regarding the costs of this permanent unemployment as due to the trade policy decision and due instead to other factors is largely a matter of arbitrary choice.

It is clear that any estimates must be regarded with a high degree of reserve, but for what they are worth the various studies which have been carried out suggest:

(i) treated as an investment decision with costs and benefits discounted over time, the benefits of trade liberalisation invariably come out as greater than the social costs even on wide range of assumptions.

(ii) the net benefits from liberalisation are greatest for highly protected items, and for industries where protected workers are in low wage employment - eg. textiles. The costs are more likely to outweigh the benefits where protection is relatively low and workers are highly paid - eg. steel and cars.

(iii) the ^{net} benefits of liberalisation tend (except for very highly protected items) to be small in relation to the straight transfer effects as between consumers, producers and government and this no doubt accounts in part for producer resistance to liberalisation.

Since issues have been raised which are of a theoretical character the arguments are spelt out in more detail, with examples, in an attached note.

Appendix: Costs and Benefits of Trade Liberalisation

The methodology for calculating the impact on society of trade barriers and their removal is well established, and has been set out in detail by Harry Johnson and others (eg. "The Cost of Protection and the Scientific Tariff" JPE 1960). Attempts have been made to compare this with the costs to producers by Stephen Magee ("The Welfare Effects of Restrictions on US Trade" in the Brookings Papers on Economic Activity 3, 1972) Robert Baldwin and John H. Mutti ("Policy Issues in Development Assistance" in "Prospects for Partnership" World Bank 1974) Gerhard Fels and M.M. Glisman ("Adjustment Policy in the German Manufacturing Sector" in "Adjustment For Trade" OECD Development Centre 1975), and in a preliminary papers produced at Antwerp (eg. M. Neuwissen Protection Without Adjustment - the Belgian Footwear Industry).

These studies all use the concept of consumer and producer surplus. It is worth recalling the basic assumptions that underlie this kind static partial equilibrium analysis; an efficient price mechanism; terms of trade are given, no economies of scale, one final good only is considered, no substitutes affected by cross-elasticities, or intermediate products; indirect effects are ignored, the demand curve is a 'constant utility curve' which assumes away income distribution problems. Modifications can be made to add realism, elasticities of demand which change through time; discounting of benefits and costs over time; incorporation of indirect, multiplier effects. However the analysis still rests on highly restrictive assumptions.

The two main elements of consumer welfare involved in the removal of a trade barrier are, first, the "deadweight" gains and, second, the

distribution effects. The "deadweight" gains relate to the total gain to the community from "consumer surplus" (i), and from increased efficiency in the now less protected industries (ii) and can be calculated from the sum of

$$(i) \quad .5.t^2.D.ed.$$

and (ii) $.5.t^2.S.es$

where t is the price change consequent upon the trade liberalisation, D is total initial demand in the importing country, S is total initial supply in the importing country. The price elasticities are of domestic demand (ed) and domestic supply (es).

There is, in addition, a straight transfer of welfare from producers to consumers (iii) and from the government to consumers in the case of a tariff removal.

$$(iii) \quad t.S.(1-.5t \ ed)$$

$$(iv) \quad t \ (D-S)$$

In the case of non-tariff barriers - say quotas - the revenue equivalent (iv), is not a transfer from the government but from importers and exporters to consumers.

To be set against the total gain from liberalisation to the community (i) plus (ii) (the distribution effects are irrelevant to a calculation total net welfare) is the loss resulting from displacement of labour. The loss in production can be calculated from,

(v) t.es.S

This can be expressed in employment terms, assuming a constant relationship between output and employment in the industry (though this assumption can be varied to allow for differences between marginal and average productivity). Thus the employment effect (vi)

(vi) t.es.E

where E is the employment level prior to tariff barrier elimination. This displacement of labour is not permanent (though it may be for some workers, and for most under conditions of mass unemployment). Labour is gradually re-employed depending on labour market conditions, and the social cost to the community is the loss of earnings in that transitional period (assuming that the workers are re-employed at higher wages comparable to those in the industry they left. In an efficient labour market they will be employed at the higher wages of expanding higher productivity industries but in practice wages could be higher or lower on average). This social cost will also vary from region to region, and time to time and depend also on the skill level, race, sex, etc. of the labour force.

This is however merely the bare outline. The problems really begin once one tries to quantify particular cases. In order to illustrate the problems and possibilities we take two examples of the costs and benefits of protection as applied to particular cases in the UK, drawing heavily on the approach adopted in the Kiel/Antwerp studies;

(i) clothing, which is protected by selective non-tariff quantitative ceilings under the MFA.

(ii) shoes which are protected almost entirely by tariffs.

The main data inputs required to make estimates are the following.

(i) elasticities, there is no need to belabour the difficulties of obtaining and using elasticities but the most obvious in this case are the paucity of meaningful estimates of elasticity of supply and the variability of elasticities over time (in relation to trade liberalisation benefits it is the long run elasticity which is relevant; for costs it is the short term, transitional, problem which is more relevant). The difficulties are eased somewhat by making use of the following relationship which holds when imports and production are perfectly substitutable, and making further, arbitrary, assumptions about the magnitude of the domestic elasticity of demand)

$$e_m = \frac{S}{M} (e_d - e_s) + e_s$$

However for manufactured goods perfect substitutability is a dubious assumption since there is in practice a good deal of product differentiation, such that the same broadly defined product is both imported and exported. In practice where specific "low cost" suppliers are separated out for discriminatory protective treatment one should make allowance for elasticities of substitution between particular suppliers and cross-elasticities between related subproducts, but for this, information is simply not available.

For the products considered the following represent some reasonably authoritative estimates of import elasticity of demand:

FOOTWEAR

<u>Author</u>	<u>Source</u>	<u>Estimate</u>	<u>Note</u>
Kreinik (Southern Economic Journal 1973)	US imports 1964-70	-.79	no lagged function
Ginsburg (North Holland 1969)	US interwar	-.97	
Buckler and Almon (American Statistical Association)	US import data (time period not quoted)	-4.0	lagged
US International Trade Commission 1975	US (1966-77- quarterly)	-4.3	no lags
Fels and Glismann	Germany non-EEC imports (period not given)	-1.71	no lags
Meuwissen & Tharakan	Belgium 1960-71 non-EEC imports	-1.1	no lags

CLOTHING

UNCTAD Survey (1971)	Netherlands	-1.7 to -1.9	
Buckler & Almon	US	-3.77	lagged
Fels & Glismann	Germany	-.75	unlagged

As can be seen the range is wide. Short term elasticities for both products seem to be around 1 but the margin of error is wide. Only one estimate known to trace long run effects is considered which suggests a much higher figure but there is no cross-check. Attempts to construct a demand function for UK imports,¹ even with lags, failed to produce a

¹ Because of the way UK import statistics are compiled before 1970 it was impossible to separate out non-EEC shoe unit values. Consequently the equations related to all imports.

statistically significant price coefficient (the regression equation suggested an elasticity of .1). This reinforced our feeling that even taking into account substitution between EEC and non-EEC imports the elasticity is on the low side. Therefore a figure of 1 for non-EEC imports was taken but with the knowledge that this possibly underestimates the long term response. From the transformation equation one therefore has (using 1976 non-EEC import domestic demand ratios for the two U.K. industries:-

$$\text{(shoes)} \quad \text{(i)} \quad -1 = .9 (e_d - e_s) + e_s \quad e_d$$

$$\text{(clothing)} \quad \text{(ii)} \quad -1 = 7.5 (e_d - e_s) + e_s$$

To separate out e_s and e_d requires a further simplification. Some studies (eg. Magee) simply assumed $e_d = 0$ for the purpose of calculating e_s which would give e_s approximately .125 and .16 in the two cases. The Glismann/Antwerp studies assume that $e_d = .5 e_s$ which gives e_s of .3 and .37. These do seem very low but the latter set will be used for the purpose of obtaining some form of initial estimate.

(ii) implicit protection

Where tariff reduction is concerned it is straightforward to estimate the relative price change which results. With shoes there are nominal tariffs of 8% and 20% and given the weighting of the two categories in non-EEC import demand the average tariff is around 17%. The relative price change $\frac{.17}{1+.17}$ is approximately 15%.

$$\frac{.17}{1+.17}$$

For clothing for which most non-EEC imports are now quota or VTR regulated there are substantially greater non-tariff effects. Because of quality differences direct price comparisons of controlled and non-controlled cif import prices, even for disaggregated items, are not a fully accurate measure of the degree of implicit protection. However it is difficult to conceive of any better. For the most important quota restricted items (mens' and women' non-knitted outerwear and under garments) the implicit tariff by item ranged from 50% to 120%. If it were felt worthwhile to pursue this kind of analysis, efforts could be made to calculate an average tariff equivalent for all clothing categories affected by a given liberalisation, but here we take 50% as a very crude approximation of estimation proposes, deliberately chosen on the low side to allow for genuine quality differences within categories. Such a tariff equivalent would imply a relative price change of 33.3% after liberalisation (say, with rounding, 35%).

(iii) the cost in terms of displaced labour can only be properly estimated with a knowledge of labour market conditions. The crudest possible measure is to take the average national period of unemployment and multiply by the average wage to measure the cost to labour (not all of which will be borne by labour if there is unemployment benefit). Baldwin & Mutti who carried out one of the early studies in this field, assumed alternatively 11 and 24 weeks for the average period of unemployment by displaced labour, and then weighted the cost by an index incorporating factors of region/sex/skill/race known to be appropriate to the

labour force of the industry in question. In the example below a similar procedure is adopted with a less arbitrary average unemployment period - using a time profile of the period which an unemployed worker can expect to remain unemployed in the UK.

There are several implicit assumptions made in this type of calculation that are worth mentioning. One is that the labour market is large so that redundancies in one product area - clothing say - do not in themselves affect the pattern of job search or period of average unemployment. Clearly, where closures are geographically highly concentrated, this will not hold. In the cases we are considering, the clothing industry is widely dispersed corresponding, on a regional basis, roughly to the national average. Footwear is more concentrated but in areas currently with a below average rate of unemployment. Second, costs to capital are ignored, on the grounds that trade liberalisation is one of the reasonable risks a businessman can be expected to anticipate. Third, we assume that workers will obtain new employment at an average wage comparable to that in the industry they have left. This is plausible for low wage industries like clothing and footwear. Fourth we have so far ignored labour displacement in the supplying industries. This is quite an important factor in both shoes and clothing. From a rough check from national input-output tables it seemed plausible to add a further 30% to the labour displacement cost for both industries.

Finally there is the problem of the long term unemployed. We make the assumption, somewhat arbitrary, that when workers remain unemployed beyond 1 year (22% currently in the UK) the costs can no longer be attributable to the initial displacement, but have deeper social causes. With these assumptions and taking present labour market conditions the cost of displacing 1000 workers in footwear in the first year following redundancy is approximately £1,650,000 and £1,350,000 for clothing - where there is an extremely high percentage of lower paid women in the labour force.

Putting together the various elements of gain and loss, one can set out the main features as follows:

1st year Costs and Benefits of Trade Liberalisation (tariff and QR removal)

	(1976 figs; £mn.)	
	<u>Footwear</u>	<u>Clothing</u>
Consumer Deadweight gain	1.05	55.1
Producer " "	<u>1.73</u>	<u>108.3</u>
Total	2.03	163.9
<hr/>		
Transfer to Consumers from Producers	78.7	1628.5
Transfer to Consumers from Government (and from importers and exporters in case of clothing).	10.50	264.0
Loss of production	23.85	621.6
Loss of employment (at marginal equal average productivity)	3,310 (employees)	42,460 (employees)
Cost to labour of employment loss	5.46	57.3

The results merit the following conclusions. First deadweight gains are as in previous studies, small in relation to overall consumption (.4% for footwear; 3% for clothing). In the clothing case they are much larger because of the much greater degree of protection. This also explains why, for clothing, the gains from liberalisation are so much greater than the costs. Even if the costs are modified in various ways, to allow for marginal productivity being lower than the average and to make some allowance for impact in local labour markets, the benefits (which are a continuous permanent stream) would far outweigh the costs even in the first year. For footwear the results are less striking though if the decisions were conceived of as an investment over time it would require extraordinarily high discount rates or low discount periods to produce a negative net present value from trade liberalisation. There is a further "national" gain in the case of clothing in that some of the transfer effect is a distribution from foreign exporters.

The implication is that, in static terms, freer trade is most easily justified in welfare terms when rates of tariff and non-tariff protection are relatively high and when the wages of displaced workers are relatively low. However the absolute magnitudes of labour displaced in a labour-intensive industry like clothing is large (40,000-50,000 on these estimates) and it is understandable that governments should be concerned about over rapid changes.

VC/125

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Implications of the Community's regional policy (and related policies)

Carlo Secchi

15 November 1977

The existence of problems of regional unbalances and regional economic backwardness in the member States has stimulated both a variety of national policies for regional development and a Community policy ad hoc.

At a general level, here I would like to point out that we would judge regional development policies in their interrelations with the structural adjustment problems necessarily connected with any Community's development co-operation policy with LDC's basically from three points of view.

We can find a negative situation, where the regional development policy becomes an obstacle to structural adjustment, if it promotes economic activities or gives contributions to their survival when they are against the spontaneous or desired trends of a new international division of labour (IDL). E.g., many "industrial rescues" carried out in Italy in some regions in recent years would fall under this heading.

We can also have neutral situations, where a regional development policy neither promotes nor impedes structural adjustment.

Finally, we can have positive situations, where a regional development policy not only tries to solve the socio-economic problems of a backward region, but combines this effort with a re-structuring of its productive system towards a better IDL.

1. National regional development policies within the EEC

The approaches in the EEC member States vary to quite an extent (1). In some countries, firms establishing anywhere in development regions qualify for assistance : e.g., the whole of Southern Italy.

(1) The Economist, 1 April 1978, Europe's regional policies, pp. 92-93.

Great Britain's assisted areas are divided into three categories, of which each receives a different treatment. Other countries now feel a more selective approach achieves better results. The aim is to concentrate regional assistance on a limited number of centres, to ensure they offer all the requirements of industrial development - good communications, factory sites, services like banking, schools and housing, etc.

France has eight growth poles, some centered on already large cities like Bordeaux, to which the bulk of regional aid is channeled.

The Federal Republic of Germany favours an even finer regional tuning : the Government's assistance is directed to 300 growth point.

However, although all the member States of the EEC attach high importance to the problem of their own regional unbalances and try to solve it with various active measures, at the level of the whole Community there seems to be a much lower degree of awareness by those same member States, and particularly by the strongest ones.

2. The Community's regional development policy and the ERDF

The Commission - on the 3rd of June 1977 - submitted to the Council a set of proposals and guidelines concerning the Community's regional policy and the ERDF (1). Most of this section is based on that document.

Let us first consider the socio-economic context of the Community's regional policy.

It is acknowledged that the Common Market has not caused a better distribution of economic activities within the Community. On the contrary, regional unbalances have increased, as pointed out earlier. Moreover, from 1973 on, the slower rates of growth in general and of increase of productive capacities have seriously threatened the weakest regions. Nowadays, the existence of regional unbalances seems to be threatening the very functioning of the Common Market.

On the other hand, it seems possible to approach more efficiently the most important inequalities only within a Community's context.

The new IDL causes the Community's economy a process of deep re-structuring, which in turn might cause new forms of regional unbalances. The Community's regional policy - in the opinion of the Commission - needs consequently to be re-framed in order to face these new tasks. It becomes necessary to widen and strengthen it, both for the historically backwards regions and for those which in perspective might encounter difficult problems of re-structuring.

In the Commission's opinion, the main features of a new Community's regional policy should be:

- a general policy to support the member States' initiatives to overcome regional inequalities;
- a specific action by the Community to tackle the new problems which result from the EEC economic and social situation.

(1) Community regional policy. New guidelines (Communication and proposals submitted by the Commission to the Council on 3 June 1977), Bulletin of the European Communities, Supplement 2/77.

Its targets should be:

- to reduce existing regional unbalances both in today's backwards regions and in those affected by a process of re-structuring;
- to implement a system of anticipatory measures in order to avoid new regional unbalances which might result from the evolution of the world economy or from specific Community's policies.

All this requires strict co-operation with the member States, with measures of co-ordination between national and Community's policies, a support by the EEC of national efforts and autonomous intervention measures by the Community.

The criteria to be followed - always in the Commission's opinion - should be:

- an active manpower policy;
- the armonious development of economic activities without heavy migration phenomena, but, on the contrary, through a better spatial allocation of productive resources;
- a global land use policy at the EEC level.

The operational instruments should be:

- the formulation of a global framework for the regional policy (1);
- the evaluation of the regional impact of the Community's policies, to be introduced and taken into account in the formulation and implementation of the main Community's policies;
- the co-ordination between national regional policies, also on the basis of regional development plans;
- the Regional Policy Committee, to be consulted for the biennial report, and to be enlarged associating to it in some way representatives of regional Authorities.

As for the ERDF, in 1976 it had credits for 500 million u.a., used through 307 decisions for contributions concerning 1,545 projects, whose total amount

(1) Starting in 1979, the Commission will have to present every other year a "Report on the socio-economic situation and evolution in the Community's regions".

reached 4,636 million u.a. 25 % were in the field of industry and services (creating or maintaining 55,000 jobs) and 75 % were in the field of infrastructure (1).

For the year 1978, 750 million u.a. are planned for the ERDF, to be allocated up to 650 million u.a. according to "national quotas", and up to 100 million u.a. for specific initiatives of interest to the Community.

Thus, the ERDF should evolve and be used both for supporting initiatives of the member States and for autonomous initiatives of the Community. Its interventions should:

- help in solving the backwardness of some regions;
- support measures connected with recent changes in the agricultural and industrial structure;
- face problems at present or foreseeable in connection with the new IDL or with specific EEC policies;
- help in solving problems of border regions.

In the Commission's opinion, among the problems to be solved, there is the need to establish regular consultations with regional Authorities, to define clearly priorities (which will be done starting in 1979 by the Council, after proposals by the Commission) and to co-ordinate regional and national policies on the basis of the guidelines adopted by the Council and on the basis of national development plans. Co-ordination should concern particularly:

- the use of disincentives in the advanced regions;
- infrastructure projects;
- the complementary use of Community's and national financial resources.

(1) See the 1976 Report of the ERDF, footnote 1.

3. Co-ordination between the ERDF and other Community's financial instruments

The 1976 Report of the ERDF in the field of co-ordination of Fund's interventions with other Community's policies and financial instruments, suggests measures to increase the impact of the Guidance section of the EAGGF in the regions which are more in need.

Other policies and financial instruments are also taken into account in that same Report.

As for investment projects financed by the EIB, it is acknowledged that in 1976 75 % of all loans went to projects of regional interest.

The ESF - always in 1976 - increased its efforts for the backwards regions, with ~~other~~ 50 % of its budget in their favour.

The question of co-ordination between the ERDF and the Regional Policy on one side, and other Community's policies and financial instruments of regional interest on the other, is anyhow very important and much can be done in this direction. A few words, consequently, will be spent also on these aspects of the problem.

4. The European Social Fund (ESF)

It is significant that the ESF is the only instrument quoted by a recent UNCTAD document (1) as "an important element of the Communities' social and labour, as well as industrial re-adaptation policies", while no mention is made of the European Regional Policy and the ERDF.

Recently, the Commission submitted to the Council proposals for making the ESF better adapted to the present situation in the labour market and for increasing the effectiveness of its interventions (2).

The Commission also intends to review the various implementing regulations concerning the ESF with a view to making proposals for their improvement in the light of the experience of the past five years. It will consider other possibilities

(1) Adjustment assistance measures, TD/B/C.2/171, 27 May 1977, pp. 5-6.

(2) Review of the Social Fund (Improvement Proposed), Commission of the EC, March 1977.

of intervention by the ESF, beyond vocational training and geographical mobility of workers. Following their approval by the Council, the various amendments should enter into force on 1st January 1978.

Also the European Parliament has taken an active interest in the ESF. In a resolution adopted on 12 May 1977, it is stated that the reform of the ESF should complete and encourage national policies in the field of employment and that the ESF can become an efficient contribution to solve unemployment problems only if it will be strengthened and transformed into an instrument of global policy.

The main activity of the ESF has been to improve employment opportunities for workers in the Community by subsidizing 50 % of the cost of vocational training schemes in the member countries in order to make the employment of workers easier and to increase their occupational and geographical mobility within the Community. Since the ESF was reformed, its annual credits have increased from 235 million u.a. in 1973 to 617 million u.a. in 1977. The ESF has been progressively enlarged and various groups of workers have become eligible for assistance.

The Commission's proposals earlier mentioned aim at resolving the difficulties encountered in the operation of the ESF and fall into two main categories:

- a better adjustment of Fund intervention to employment requirements and concentration of action in the most pressing Community's problems;
- increased effectiveness of the ESF assistance.

The Commission aims to put more emphasis in the future on interventions under Article 4 than on those under Article 5, because they enable the ESF aid to be directed more precisely to those sectors of the economy and regions which need it most. The Commission proposes to delete the clause which provides that at least 50 % of the ESF resources should be spent under Article 5 interventions (1).

Finally, the Commission's proposals include measures to remove or diminish

(1) Article 4 intervention can take place when the employment situation in specific areas, which the Council has to define, is affected or in danger of being affected by Community policies. Article 5 interventions can take place, without prior Council decision, to help in solving unemployment and long-term under-employment of a structural character, especially of a regional nature.

restrictions which at present affect the assistance which certain categories of workers can receive from the ESF, to ensure greater scope from the ESF to help women find new jobs and self-employed persons to be trained to run small craft undertakings. The proposals also aim to make the ESF aids more effective and the possibility of new aids extending beyond the field of vocational training and mobility.

It may be noted that the objectives of the ESF do not specifically include adjustment assistance to industries or sectors affected by international competition nor measures to facilitate the re-location of industries or activities into more viable sectors (including those favourable to LDC's), even though the activities of the ESF enhance labour mobility within the Community. Thus, it is to be hoped - in UNCTAD's opinion - that in making further proposals concerning the objectives and operations of the ESF, "the Commission would take into account the need for measures to promote the trade of developing countries with member States and the Community as a whole, as well as the re-location of certain industries or sectors to the developing countries" (1).

5. The European Agricultural Guidance and Guarantee Fund (EAGGF)

In ten years, from 1964 to 1974, the EAGGF financed about 4,800 projects, for a total amount of almost 1.3 billion u.a. The greatest receiving Country in that period was Italy, with over 400 million u.a. on 1,800 projects, followed by Germany (330 million u.a. and 1,000 projects) and by France (264 million u.a. and 800 projects). In 1975 the Guidance section of the EAGGF had at its disposal 325 million u.a., used to finance 692 projects (212.6 million u.a.), to support producers' associations and for various purposes (49.9 million u.a.), and partly and exceptionally transferred to the "Guarantee" section (62.5 million u.a.) (2).

(1) Doc. cit. (footnote 5), paragraph 22, p. 6.

(2) Source: The agricultural policy of the EC, European Documentation, 1976/5.

Thus, we see that also the "Guidance" section of the EAGGF has at its disposal sizeable annual credits which can finance projects in the field of agriculture and related sectors. As it was mentioned in section 2, the choice of the projects to be financed has of course also regional implications. In other words, the allocation of these financial resources can be done also taking into account specific regional realities naturally in the agricultural sector, but obviously interrelated also with the general socio-economic conditions of the regions concerned.

Consequently, a better co-ordination between interventions of the ERDF and of the Guidance section of the EAGGF could prove quite useful in the general framework of a Community's regional policy with more emphasis on structural adjustment problems.

6. The European Investment Bank (EIB) and other Community's policies and financial instruments

A similar reasoning applies also - as it was anticipated in section 2 - to the operation of the EIB and - in general - to all other policies and financial instruments at the disposal of the Community.

Not only we have the problem of reciprocal implications between various policies - which will be investigated by the Group - but also, from the specific point of view of this paper, it may be realized that most of the Community's other intervention possibilities and financial instruments have, in one way or the other, regional implications, and thus a better co-ordination could prove useful for purposes of intervention on the regional economic realities. And, at this level, as it was mentioned at the beginning and as it is well known, many times problems of structural adjustment come up with a weight and a dimension that cannot find a solution within the region concerned itself.

7. Concluding remarks

A regional development policy at the EEC level - in strict co-ordination with each member State policy in the field - is clearly a conditio sine qua non for any serious and positive approach to the structural adjustment problems which inevitably derive from any (serious and positive) Community's development policy in favour of LDC's.

This means that the present set-up should be strengthened and endowed with much larger resources, also in strict co-ordination with all operational instruments available at the Community's level.

Available financial resources are by definition "scarce", and this requires great efforts of selecting priorities within a global strategy, of efficiency, and of co-ordination and co-operation with member States and their regions.

A few fundamental principles should be clearly adopted and equally clearly precise instructions should be given to the member States and their regions.

The problems of structural adjustment are sometimes misunderstood by public opinion, as well as by trade unions, political parties, etc. Also in this field efforts seem necessary, at all levels, in order to stimulate consensus in the initiatives undertaken.

8. Addendum : Recent developments of the European regional policy (and related policies) (April 1978)

During the European summit of 5-6 December 1977, the agreement reached on the renewal of the ERDF for the coming three years (1978-1980) accepted only partially the requests put forward, in particular by the weakest members of the EEC. This does not allow - for sure - any hope of a rapid overcoming of the present situation of regional unbalances and of an accelerated economic progress in the most backwards regions. Against the 3 billion u.a. proposed by the Commission, the Council agreed upon 1,850 million u.a. for the three years. This is more than the past three years of operation of the ERDF, but due account should be taken of the inflationary process which will inevitably continue also in the coming years (thus reducing the amounts in real terms). Moreover, this seems much less than what is required by a regional policy with the purpose of a real re-equilibrium within the Community (and thus the possibility of tackling more ambitious projects, like the monetary union).

The hopes of more effective intervention in the field of regional problems are connected with the possibility that the European Parliament - which has already criticized many times the Council's behaviour in the field of regional policy - could put pressure for an increase of the credits of the ERDF. Some hopes are also connected with the so-called "Mediterranean package" (1), already approved by the Commission but still waiting for its final approval and implementation. It should provide 1.3 billion u.a. in five years for Italian and French regional (agricultural) projects in the southern regions of the two countries. Other possibilities are connected with intervention schemes for financing restructuring.

(1) La Communauté Européenne pour le développement de ses régions méditerranéennes, Nouvelles de la politique agricole commune, n. 11, décembre 1977.

Finally, during the summit of 7-8 April 1978, within the possible initiatives to promote employment, it was agreed that all member States should do an effort to achieve much higher rates of growth, also the weak ones. Italy, e.g., has been promised higher financial assistance for the problems (balance of payments, etc.) it will encounter. Nothing more specific - judging from the newspapers' reports - has been agreed upon for what concerns in particular the problem of regional unbalances within the Community.

It emerges from this brief analysis that there is still little willingness to tackle effectively the regional problem at the Community level. Re-equilibrium can be achieved only through a substantial transfer of resources from the rich regions to the poor ones. In the absence of this, any adjustment of re-structuring problem will be much more difficult to tackle. In other words, an effective regional policy could prepare the "ground" for an adjustment policy, and it becomes the necessary condition for the latter to work in practice. Thus, in dealing with the interrelations between the Community's development policy (with its probable internal consequences) and its other policies, in my opinion the Group should stress that the EEC must prepare itself internally so that an effective development policy - once it starts to produce its effects - does not become the target for counter-manouvres by those parts of the Community which are more suffering from it, also as a consequence of the fact that they have been very little prepared to face the new situation, or of the fact that they still have substantial internal problems to be solved (and thus are not willing to have any extra complication).