

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Limited Distribution

Group of Experts on Adjustment
Assistance Measures

SUGGESTED POINTS FOR DISCUSSION

Note Prepared by the Secretariat for the Meeting 7-11 February 1966

1. The Expert Group is required by its terms of reference to study material obtained from developed contracting parties and to report to the Committee on Trade and Development on measures being applied, or proposed to be applied, by developed countries for assisting adjustment in the changing structure and pattern of production, so as to provide larger opportunities for imports of products of interest to less-developed countries. The material supplied by contracting parties up to June was discussed by the Group at its first meeting in June 1965. Additional information since received from developed countries concerning the four specific points set out in paragraph 21 of COM.TD/H/2 has also been distributed to members of the Group. For the convenience of the Group and contracting parties in general all this material has been reorganized and consolidated in a single document (COM.TD/H/3).
2. The additional statements supplied by contracting parties have provided more detailed information concerning the nature of the measures which might be employed and the various policy instruments available to contracting parties. They have not, however, revealed many specific instances of the actual use of these measures to deal with problems of adjustment arising in particular industries from import competition.
3. The context in which adjustment assistance measures have been developed and the relatively uncommon use of these measures to deal exclusively with import competition also suggests that in most countries the difficulties experienced by industries in facing up to import competition are regarded as indicative of a general situation of technological backwardness and low productivity etc., arising from various technological developments and other factors. The policy instruments, therefore, appear to have been conceived broadly with a view to improving the overall situation of the industry or to directing a re-allocation of resources without specific reference in every case to competition from imports as such.

4. In those cases where adjustment assistance measures are related more directly to difficulties arising from imports, it appears possible to distinguish between two types of measures: (a) those designed to improve productivity and the competitiveness of the industry through modernization and rationalization of equipment, introduction of a higher degree of automation and other technological improvements, etc.; (b) those designed more particularly to increase the mobility of labour and capital with a view to encouraging re-allocation of resources from one line or branch of production to another. It would appear that while the first type of measures might be related to assistance given to an industry to help it to compete with imports without the support of tariff or non-tariff measures of protection, the second type of measures are more directly intended to provide for the adjustment of the economy to a larger volume of imports.

5. The data furnished by contracting parties have not indicated that, apart from the textile sector and except in a few other specific instances, adjustment assistance measures have been used specifically for the purpose of dealing with any difficulties which might have been caused by increases in imports from developing countries. Nor are there indications that governments which have found themselves compelled to provide tariff or non-tariff protection for their industries have, in each case, been in a position to examine how far this problem could have been dealt with through the use of measures of adjustment assistance. There is also no specific information as to whether in certain cases actual use of such measures, or assurance that such measures could be used, has enabled certain countries to avoid additional measures of tariff or non-tariff protection.

6. The information provided by the United States, however, does indicate that the provisions in the Trade Expansion Act on adjustment assistance have, by virtue of the assurance that adjustment assistance will be forthcoming to deal with difficulties created for particular industries through increases in imports, facilitated the adoption of this legislation which aims at a fairly ambitious measure of trade liberalization. This would appear to indicate that, in many instances, the assurance that the possibility of such assistance being provided exists and that governments will be willing to use such measures, could be helpful in reconciling domestic interests to a larger degree of trade liberalization. Of course, in each country and for each industry there may be a number of political and social factors which would need to be taken into account.

7. This point has some relevance to the suggestion that the secretariat undertake case studies to gauge the adequacy of existing legislation or measures applied under this legislation to provide greater access to imports from developing countries. By and large, it should be clear from the above that such studies cannot be undertaken on the basis of historical experience. They can have significance only to the extent that they provide some indication of the adjustments which, over a time period, it might be possible for the industry to make

with the help of such measures. However, this can only be done on the basis of certain assumptions regarding the projected growth in imports from developing countries which, in turn, might again be a function of changes in competitive position of these products resulting from the process of trade liberalization and the growth plans and possibilities of developing countries in the items involved. Secondly, the relationships between the volume of products, the number of workers, the amount of capital investment and equipment and the social costs involved in the adjustment on the one hand, and the total national product, working population, capital investment etc. on the other hand would naturally differ from industry to industry so that conclusions in regard to the magnitude of the problem in a particular industry and the speed with which adjustment can be effected cannot be generally valid for other industries. A further point which needs to be taken into account is that it may be easier to take a view of the speed and efficacy with which adjustments can be effected if the problem is studied in relation to a range of products in respect of which larger imports from developing countries may be expected rather than for individual items in individual sectors of industry. With these reservations, however, such a study might serve to demonstrate more concretely how imports are likely to be affected as a result of a trade measure of liberalization, how this increase in imports can be absorbed into the structure of the domestic economy through the normal adjustment of factors of production, and the extent to which policies of adjustment assistance could facilitate this process.

8. As regards the choice of products for this exercise, the Group may recall the view which the secretariat was invited to express at its first meeting. The developing countries have indicated a substantial number of products in which they consider they have an actual or potential export interest both in Committee III and the Committee on Trade and Development and in the context of the Kennedy Round. A priori, one might also suggest, for example, products based on the processing of domestic raw materials (e.g. leather, plywood and copper wire), products of light industries which are already exported in substantial quantities by several less-developed countries (e.g. footwear, radio receivers and telephonic communication equipment, miscellaneous metal manufactures) and other manufactures in which less-developed countries would appear to enjoy an actual or potential comparative advantage over traditional industries in industrialized countries, (e.g. porcelain and china, travel goods, lighting fixtures, lamps, batteries, articles of plastic). Among these products, many would seem to be suitable candidates for a study of the kind discussed above. In order to test the value and feasibility of such studies, it may be advisable to carry out in the first instance a study on one of the products. The footwear industry is one whose production can easily be expanded in many less-developed countries, but exports of which from less-developed to developed countries have in some cases encountered a certain amount of resistance in import markets. Such a study may be useful both in the context in which it has been proposed and as an exercise which might be of value to any future discussion of problems relating to the footwear industry.

9. It is evident that protective measures adopted by governments are based on a set of assumptions regarding the rate of increase in imports which would result from the reduction or removal of the protective measure, the impact on price levels, etc., and the consequent changes in the demand for the domestic product. It follows that the use of adjustment measures would be facilitated if there were a fuller knowledge of (a) the projected increase in exports of the products concerned from the developing countries, and (b) the growth patterns of the domestic industries, the growth of domestic demand and the direction in which domestic production is likely to develop in the future. The development of appropriate machinery for the exchange of information and for consultation might enable both the importing and the exporting countries to get a better estimate of the adjustment problem involved and encourage the development of realistic policies to deal with the problem. The Group of Experts may wish to invite consideration by the Committee on Trade and Development of this question of setting up appropriate mechanism for that purpose.