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3 Exports of Manufactures from Developing Countries to the European Community

Jean Waelbroeck

This paper discusses the prospects for manufactured exports from developing countries (the South) to the European Community (EC). Can and will the EC absorb the additional goods which these countries need to export to pay for the imports required for their development? What kinds of products will they sell? What are the commodity groups for which rising Southern exports may cause trade tension?

To investigate these issues, the paper uses a recently developed data bank, created at the initiative of the World Bank. By converting trade and production to a single classification, it is possible to calculate apparent consumption of the various goods and to calculate "market penetration rates" (the ratio of imports to that consumption).

The paper first describes this data base. To provide a comparative setting and to highlight the connection between market shares and protection, the second section compares the trade data of the "Big Three" trading nations: the United States, Japan, and the European Community. (The EC is a "nation" in this paper for linguistic simplicity.) That section examines some large shifts that have occurred in world trade, which have motivated the major trade disputes of recent years. The third section provides evidence that, although the EC is in principle a single trading area with a unified system of protection, countries have managed in practice to retain a good deal of autonomy in trade policy and have quite different degrees of openness to imports from developing countries. The fourth section describes trends in trade for different groups of commodities and assesses the implications of these trends for the future. The paper closes with conclusions.

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3.1 The Data Base

The data base, constructed in the framework of a World Bank research project,[1] provides comparable data on production and trade in eleven developed countries (Sweden, the Federal Republic of Germany, the Netherlands, Belgium-Luxembourg, the United Kingdom, France, Italy, Japan, Australia, Canada, and the United States). The "EC" of the tables accordingly describes the European Community minus Ireland and Denmark.

The figures are obtained by converting all data to the international standard industrial classification (ISIC). For production data, this was done by economists in each country, who processed data organized according to the country's national classification to convert it to the international classification. The trade data were developed by the World Bank's staff by aggregating data from the United Nations' trade tapes to an ISIC basis, organized according to the standard international trade classification (SITC).

In each country, the person responsible used his own judgment and unofficial correspondences that might be available to establish the mode of conversion from the national to the international basis. (In Sweden, the statistical office produces production data on an ISIC basis.) For the trade data, the World Bank used the concordance established by the United Nations (1958) which converts the five-digit SITC to the four-digit ISIC. A number of five-digit ISIC items were created to highlight products that are of particular importance to developing countries, and the United Nations concordance was extended appropriately. This work is currently being transferred to the Organization for Economic Cooperation and Development (OECD).

3.2 The Big Three Trading Nations in the 1970s and Their Trade

To set the South's exports of manufactures to the EC in the right perspective, this section brings together the main facts concerning the exports and imports of these goods by the Big Three trading nations: the United States, Japan, and the EC. A more detailed discussion of the trade of the first two is to be found in the contributions of Branson and Yamazawa in this volume (chaps. 2 and 4).

3.2.1 Market Size and Openness

In 1980 the United States was the largest producer and consumer of manufactures, by a small margin over the EC; the rise of the dollar and the economic recovery in that country since that year have widened the gap. Japan's consumption is roughly half as large as that of the other two (table 3.1).

Table 3.1 **Geographic Patterns of Trade in Manufactures of the EC, the United States, and Japan** (billions of U.S. Dollars)

	1970						1980					
	EC		U.S.		Japan		EC		U.S.		Japan	
	M	E	M	E	M	E	M	E	M	E	M	E
Total	37.0[a]	53.9[a]	33.1	34.8	8.5	18.9	221.1[a]	295.9[a]	162.0	167.5	48.6	127.4
Southern Europe	2.0	6.0	0.6	1.3	0.1	0.6	19.5	30.8	3.0	4.8	0.5	2.1
East Asian NICs	0.8	1.0	1.8	1.1	0.5	2.6	11.6	7.3	18.2	10.9	6.1	18.6
Latin America	3.0	4.0	3.9	5.7	0.3	1.1	14.1	17.8	22.8	32.2	2.4	8.3
Other developing countries	4.9	10.5	1.4	4.6	1.6	4.5	24.3	87.1	10.5	25.7	10.0	36.2
Developing countries (except S. Eur.)	8.7	15.6	7.2	11.4	2.4	8.2	50.0	112.2	51.4	68.9	18.5	63.1
All developed countries	24.0	28.8	25.1	21.8	5.8	9.8	134.7	132.1	106.2	92.5	28.7	58.8
Socialist countries	2.3	3.4	0.2	0.3	0.3	0.4	16.8	20.9	1.4	1.3	1.0	3.4
EC	46.2	46.2	8.2	8.6	1.4	1.7	275.2	278.2	32.3	38.8	6.8	15.6
ASEAN	0.4	1.2	0.7	0.9	0.2	1.6	5.9	7.0	6.8	7.7	4.0	10.8
	C	P	C	P	C	P	C	P	C	P	C	P
Consumption	403.8		595.9		179.1		1,526.7		1,869.6		7,722.0	
Production		420.7		597.6		189.5		1,601.5		1,875.2		851.0
Imports/consumption	9.16		5.56		4.72		14.48[a]		8.66		6.29	
Exports/production		12.81		5.82		9.99		18.48[a]		8.93		14.97

Note: M = imports; E = exports; C = Consumption; P = Production.

[a]Excluding intra-EC trade.

Trade in manufactures of the United States is nearly in balance, whereas the EC and Japan earn surpluses, which are needed to pay for their large net imports of primary commodities and, in the case of Japan, of services. The European and Japanese surpluses would be even larger if resource-intensive manufactures such as timber and wood products, nonferrous metals, and manufactured foods were excluded from the total.

The EC is the most open of the three "big traders" to imports of manufactures, by a comfortable margin. The United States comes next, and Japan is not as far behind as is sometimes said; it is, however, true that, as a smaller economy, that country would be expected to trade more than the others in relation to its size.

Judging from recent figures on world trade, the gap in openness to trade between the EC and the United States has shrunk since 1980, but this reflects to a large extent the rising American trade deficit. The deficit is due to the unorthodox policies pursued by that country recently. This deficit is in any event not sustainable and reflects temporary factors: strong recovery in the United States at a time when unemployment is still rising in Europe and the overvaluation of the dollar. A return to a more normal balance of trade, which will eventually take place, will reduce imports.

Because Japan's imports of manufactures are low, the trade figures look lopsided, with exports far larger than imports. Although in dollar terms, the EC and Japanese surpluses in manufactures are roughly equal, the ratios of those surpluses to imports are sharply different. The ratio was 162% in Japan in 1980, a year in which the surplus in the EC amounted to 34% of imports.

3.2.2 The Geographical Pattern of Trade

Table 3.1 illustrates the polarization of trade according to proximity. Latin America trades predominantly with the United States; southern Europe and the European centrally planned economies (CPE) with the EC; and the Asian newly industrializing countries (NICs) and the Association of South East Asian Nations (ASEAN) with Japan. A curious "backyard effect" is to be noted in each case. With the exception of the EC's trade with the CPEs, which is subject to agreements prescribing bilateral balance, trade of the Big Three with their hinterlands yields exceptionally large surpluses.

A striking feature is the growing trading strength of developing countries. Both their exports to and their imports from the Big Three have been rising rapidly. Trade of the South with the Big Three rose from being equivalent to 46% of the latter's trade with developed countries in 1970 to 66% of that total ten years later. The developing countries remain large net importers of manufactures. These net imports grew

with trade: the ratio of imports to exports did not change markedly. In net terms, the South has continued to be a net creator of manufacturing jobs in the developed countries: its import needs have helped to slow down deindustrialization.

The countries of East Asia have played a significant but by no means exclusive role in bringing about this change. In terms of fractions of the Big Three's trade with developed countries, the trade of the East Asian NICs and ASEAN grew from 6.8% and 5.0% to 13.1% and 7.6%, respectively.

As noted by Branson in chapter 2 of this volume, U.S. trade with the NICs of Latin America and Asia has increased considerably. These countries have built up strong industrial sectors and have become significant exporters of manufactures. The EC's trade is oriented quite differently. The countries of Africa and OPEC, which make up most of the category "other developing countries" in table 3.1, play the dominant role. Such an orientation is easy to understand in terms of geography and past colonial links. Because of this, however, the EC trades mainly with countries which are not yet significant exporters of manufactured goods.

These is much vague talk in Europe about the NICs and the problems which they will cause, but the figures show that at present they do not matter much to the EC. This situation will not last. The NICs are growing fast, and they are being joined by the "new NICs" in Asia and in the Mediterranean area, for example. The EC cannot escape from their trade dynamism and its consequences and should begin to think with care about issues of reciprocity in trade, which are a critical element of present policy debate in the United States. More active discussion is needed about the best ways for the EC to both adjust to and benefit from the rapid economic growth of the NICs.

3.2.3 Patterns of Specialization in International Trade

There is not much difference in production patterns in the three countries (tables 3.2–3.4). Patterns of apparent consumption are even more similar.

With respect to trade, the large share of steel and other metal goods in Japanese exports is to be noted. These goods are energy-intensive, and the energy embodied in these exports is another reason why Japan has such a strong need to earn an export surplus in manufactures.

The EC is a larger net exporter of metal goods, though the magnitude is no larger than Japan's. The chemical industry is the EC's other major net earner of foreign exchange. Net exports of steel remain considerable. They have, however, ceased to have a rationale in terms of comparative advantage and remain high only thanks to the extremely heavy subsidies which member country governments grant to EC producers

Table 3.2 **Patterns of Production and Trade in the European Community**
(1980, billions of U.S. dollars, intra-EC trade excluded)

	1970			1980		
	P	M	E	P	M	E
31 Food, drink, tobacco	72.4	7.6	3.1	271.2	27.8	20.1
32 Textiles, clothing, leather	43.0	2.7	4.9	113.7	24.8	18.8
321 Textiles	26.2	1.5	3.1	66.2	10.1	10.3
322 Clothing	10.6	0.8	0.9	30.6	10.7	4.8
324 Shoes	3.9	0.1	0.6	9.8	1.8	2.0
33 Wood	11.8	1.9	0.4	47.8	10.1	3.1
34 Pulp paper	23.0	2.8	1.1	83.9	11.9	5.2
35 Chemicals	66.4	4.2	9.5	337.8	38.3	62.3
36 Nonmetallic products	15.9	0.4	0.3	57.9	2.5	2.1
371 Steel	32.6	1.8	4.1	99.7	7.3	17.8
372 Nonferrous metals	10.8	4.8	1.4	34.4	15.2	7.7
38 Metal products	141.1	9.9	27.2	541.4	73.2	144.2
382 Nonelectrical machinery	42.5	3.9	10.6	156.3	22.5	54.2
383 Electrical machinery	29.2	1.9	4.3	109.5	16.2	23.4
384 Transport equipment	38.1	2.0	8.9	174.0	20.7	45.5
39 Other manufactures	3.6	1.0	1.2	13.9	10.1	9.7
3 All manufactures	420.7	37.0	53.9	1,601.9	221.1	295.9

Note: P = production; M = imports; E = exports.

Table 3.3 **Patterns of Production and Trade in the United States**
(1980, billions of U.S. dollars)

	1970			1980		
	P	M	E	P	M	E
31 Food, drink, tobacco	97.0	4.8	2.6	292.3	15.6	12.5
32 Textiles, clothing, leather	49.6	3.2	1.0	105.7	13.0	5.7
321 Textiles	26.1	1.2	0.7	61.9	2.6	3.9
322 Clothing	18.6	1.3	0.2	35.8	7.0	1.2
324 Shoes	1.7	0.2	0.1	3.7	1.1	0.5
33 Wood	17.1	1.1	0.4	51.1	4.9	2.4
34 Pulp paper	49.0	1.7	1.5	140.0	6.1	5.9
35 Chemicals	87.5	3.8	5.2	457.0	26.5	29.7
36 Nonmetallic products	16.0	0.5	0.4	44.0	2.3	1.9
371 Steel	28.9	2.1	1.3	95.1	8.6	3.3
372 Nonferrous metals	16.6	1.8	1.0	48.2	8.0	5.5
38 Metal products	228.0	13.1	21.0	662.7	72.0	97.9
382 Nonelectrical machinery	59.2	2.6	8.2	159.8	14.6	38.7
383 Electrical machinery	43.8	2.5	2.6	94.8	15.4	13.0
384 Transport equipment	76.8	6.6	7.4	221.4	33.5	32.4
39 Other manufactures	8.0	1.0	0.4	19.2	4.9	2.8
3 All manufactures	597.6	33.1	34.8	1,875.2	162.0	167.5

Note: P = production; M = imports; E = exports.

Table 3.4 **Patterns of Production and Trade in Japan**
(1980, billions of U.S. dollars)

	1970			1980		
	P	M	E	P	M	E
31 Food, drink, tobacco	22.2	1.1	0.5	116.9	7.2	1.4
32 Textiles, clothing, leather	14.2	0.5	2.4	50.2	4.2	6.0
321 Textiles	11.0	0.4	1.8	32.6	2.2	5.2
322 Clothing	2.3	0.0	0.4	13.0	1.5	0.5
324 Shoes	0.4	0.0	0.1	2.1	0.2	0.0
33 Wood	8.5	0.3	0.2	32.6	2.6	0.3
34 Paper	10.6	0.3	0.2	48.0	1.8	1.0
35 Chemicals	26.1	1.8	2.0	16.3	13.7	11.2
36 Nonmetallic products	6.8	0.1	0.4	31.4	0.4	1.9
371 Steel	17.3	0.3	2.9	64.1	0.9	15.8
372 Nonferrous metals	5.3	1.0	0.3	12.8	5.0	2.0
38 Metal products	76.3	2.8	9.6	320.2	11.5	85.6
382 Nonelectrical machinery	19.2	1.2	1.9	70.8	3.5	17.3
383 Electrical machinery	19.5	0.4	2.7	76.0	2.3	21.6
384 Transport equipment	19.5	0.5	3.6	98.6	2.6	35.7
39 Other manufactures	2.4	0.2	0.5	12.1	1.2	2.2
3 All manufactures	189.5	8.5	18.9	851.0	48.6	127.4

Note: P = production; M = imports; E = exports.

and to the strict import restrictions which the European Commission administers. These exports are bound to dwindle. Will the EC allow itself to become one day a large net importer of steel, as the United States has done?

For textile and clothing products, a sensitive item in trade, the EC is more open than the United States. This may be due to the fact that the EC tightened its control of these exports only in 1977, several years later than the United States.

The United States of America is in balance for chemicals and in deficit for everything else except metal goods and electrical equipment, the net exports of which cover the other deficits.

3.2.4 Changes in Trade Shares and International Economic Conflicts

There have been important changes in the trade profiles of the Big Three in the 1970s, which have motivated trade tensions. Tables 3.2–3.4 reveal two such changes. Similar shifts in the future will bring about equally strong pressures for protection.

One such change has been the extraordinary expansion of Japanese exports of capital goods, in particular of steel, metal goods, and transport equipment. Other countries have reacted to this by demanding

that Japan agree to implement voluntary export restraints (VER). The other is the sharp deterioration of the three major trading countries' trade balances for textiles and even more for clothing, which reflects the surge of exports by NICs; this led the developed countries to impose on the developing countries the Multi-Fiber Arrangement (MFA).

Even Japan's trade reflects this shift in international specialization, though it is interesting to note that as late as 1980, there was still a textiles and clothing export surplus, a surplus which has provided that country with foreign exchange throughout much of its recent history (in fact, as late as 1984, Japan was still being "called" by the United States to reduce exports of particular types of textiles, and as late as 1982, Japan was a larger net exporter of textiles and clothing than Hong Kong). The surplus for "other manufactures" is another reminder of a pattern of comparative advantage which prevailed when Japan was still a low-wage country.

3.2.5 Bilateral Balances and Trade Bargaining

The imbalance in Japan's trade in manufactures has evoked a good deal of criticism and has often been quoted as proof that this country operates an occult system of trade protection. It has contributed in this way to the trade tensions of the decade.

Why should this be considered a problem? Economics tells us that there is no reason to demand that trade balance bilaterally for goods and services overall, and even less that it should achieve this for one category of goods, such as manufactures. Two hundred years after Adam Smith, however, the mercantilist illusion is still strong in the minds of both the public and trade negotiators, who tend to feel that partners with whom their countries have unfavorable trade balances are somehow causing harm. It also happens to be true that when two countries trade together, the one which is in deficit has a bargaining edge, because it can credibly threaten to limit imports from its partner, confident that its partner will not be able to inflict upon it equivalent harm by retaliating. Japan's lopsided trade with other developed countries has for this reason weakened its bargaining position and helped to maintain that country in something of a pariah status in the international trading community. The Japanese export surplus with developing countries is even larger of course; it causes considerable resentment in the more advanced ones and even brought about a small trade war with Taiwan.

Could the situation be changed by appropriate Japanese policies? There is no quick remedy. As indicated, that country needs its export surplus in manufactures. What could be envisaged would at best be a parallel rise of both exports and imports of manufactures. This increase would have to be very large to bring the import/export ratio close to

the kind of rough balance registered by the EC, for example. Japan's partners, however, would probably be content with a rapid and matching growth of both exports and imports, which has not been taking place.

The East Asian NICs also have been building up a large surplus in their manufactures trade with the EC and the United States. This weakens their bargaining power for the same reason. This bargaining power is also affected by such political factors as the uncertain international position of Taiwan, South Korea's dependence on U.S. military aid, Hong Kong's status as a British colony that will be ruled by China in 1997.

Other developing countries are fortunately in a better position from the point of view of bargaining, as nearly all of them import much more manufactures from developed countries than they export to them. As they begin to export manufactures, they are confronting partners who need the outlets which they offer; countries such as Thailand and Indonesia have begun to use the threat of cutting down access to their markets to fend off protectionist threats to key exports; the current debt situation has been used as an argument for moderate protection in the United States.

3.2.6 Are Exports from the South Reaching Market Limits?

It is frequently asserted that, although the manufactured exports of developing countries grew spectacularly in the past, they are now reaching limits which will slow their progress in the future. Table 3.5 examines changes of rates of market penetration by developing countries into the EC, the United States of America, and Japan. The striking finding is that these rates are still very low, except for textiles and clothing and miscellaneous manufactured goods. The table suggests that developing countries are still far from having reached what could reasonably be thought of as a market ceiling to their exports to the developed countries; the room for further expansion appears to be enormous if they can increase and diversify supply.[2]

The figures also do away with the widespread idea that competition from the NICs has been a major cause of unemployment: the market penetration rates are so low that the gross number of workers displaced cannot have amounted to a significant fraction of the labor force (as explained above, in net terms developing countries have created industrial jobs).

It could be argued that the low level of market penetration rates by developing countries into the Big Three traders is an artifact reflecting undue aggregation of the data in the tables. It could be true that those countries are competitive only for a limited number of products, spread over a broad range of SITC items. Market penetration rates would then

Table 3.5 **Trade of the EC, the United States, and Japan with Less-developed Countries, excluding Southern Europe** (billions of U.S. dollars)

		1970						1980					
		Imports			Penetration Rate[a]			Imports			Penetration Rate[a]		
		EC	U.S.	Japan	EC	U.S.	Japan	EC	U.S.	Japan	EC	U.S.	Japan
31	Food, drink, tobacco	3.5	2.5	0.5	4.4	2.5	2.2	12.6	8.7	2.6	4.5	2.9	2.2
32	Textiles, clothing, leather	1.0	1.1	0.3	2.5	2.1	2.3	11.2	9.5	2.6	9.4	8.4	5.4
321	Textiles	0.5	0.4	0.2	2.1	1.3	2.1	3.8	1.3	1.3	5.7	2.1	4.3
322	Clothing	0.3	0.6	0.1	3.1	3.3	3.1	5.6	6.1	1.1	15.3	14.7	7.6
324	Shoes	0.0	0.0	0.0	1.1	1.0	0.7	0.7	1.3	0.2	7.0	20.4	6.9
33	Wood	0.3	0.3	0.1	1.9	1.5	1.0	2.1	1.4	0.7	3.8	2.7	1.0
34	Paper	0.0	0.0	0.0	0.1	0.0	0.1	0.47	0.3	0.2	0.5	0.2	0.4
35	Chemicals, petroleum, rubber	0.6	1.7	0.7	0.9	2.0	2.6	10.3	13.7	7.4	3.3	3.0	4.5
3511	Base chemicals	0.2	0.1	0.0	1.3	0.9	0.8	1.5	0.7	0.5	2.9	1.0	2.1
353	Refined petroleum	0.2	1.3	0.6	1.5	5.4	12.4	7.6	10.9	6.4	6.8	5.1	10.6
356	Plastic goods	0.0	0.2	0.0	0.7	2.4	0.1	0.5	1.1	0.3	1.8	3.1	0.4
36	Nonmetallic products	0.0	0.0	0.0	0.0	0.3	0.1	0.3	0.4	0.1	0.5	0.9	0.3
371	Steel	0.2	0.07	0.07	0.6	0.2	0.5	0.8	1.0	0.5	0.9	1.0	1.1
372	Nonferrous metals	2.2	0.5	0.6	15.8	3.0	9.7	5.2	2.6	2.3	12.4	5.1	14.4
38	Metal products	0.5	0.7	0.1	0.4	0.3	0.1	8.7	11.8	1.5	1.8	2.0	0.6
39	Other manufactures	0.6	0.3	0.1	16.9	3.8	2.8	6.2	2.1	0.5	41.2	10.0	4.5
3	All manufactures	3.7	7.2	2.4	2.2	1.2	1.3	50.0	51.4	18.5	3.3	2.8	2.4

[a]Imports as percentage of apparent consumption.

be low for the aggregates just discussed and yet be quite high for the products which developing countries are capable of exporting. It is worthwhile to look at more detailed data. Table 3.6 lists the goods for which the rate of market penetration is 10% or more, at the finest level of disaggregation available (four or five digits ISIC).

The detailed table confirms the earlier conclusions. More than half the items are textiles and clothing products, a group where the market penetration rate is high at an aggregated level. Three are food products, which are vulnerable to the agricultural protectionism that is rampant throughout the world. Others (nonferrous metals, jewelry including diamonds, and leather) are largely raw materials. These have usually been subjected to protection only to a limited extent; as such products tend to have rather perfect markets and the developing-countries' share is not high in most cases, they are not threatened by market saturation constraints (the case of diamonds, subject to marketing decisions of the Diamond Trading Corporation cartel, is discussed below). The table does not reveal any unsuspected danger points: the conclusion stands that there is a good deal of room for increase of exports of manufactures from developing to developed countries provided that developing countries, as they have managed to do up to now, are flexible enough to shift to new products as some existing markets close up.

3.3 The EC Common Commercial Policy, the Trade Policies of Member Countries of the EC, and the Design of Trade Policies for Developing Countries

Does the EC offer to developing countries a unified market? Does the EC have a trade policy of its own? Given the threat of protection, it is important for developing countries to give thought to identifying the most effective negotiating strategy in dealing with the EC.

In principle, what the EC offers to developing countries is indeed a common market. There is a common external tariff. Most of the overt quantitative restrictions which existed in 1958 when the Rome Treaty was signed have been abolished. The European Commission represents member country governments in negotiations. To regard the Community as an entity for purposes of trade negotiations would seem the right basis for policy thinking.

A closer look reveals, however, that member countries retain a good deal of freedom to control access to their markets. Of the few import quotas which these countries still administer, some are important, for example, those for automobiles in Italy and for consumer electronics in some countries. Even the Multi-Fiber Arrangement and the steel import restraints administered by the commission under Article 58 of the Rome Treaty provide for national import quotas and leave to the

Table 3.6 **High Market Penetration Items in Developed-Country Imports* from Developing Countries** (imports as percentage of apparent consumption)

	EC		United States		Japan	
	1970	1980	1970	1980	1970	1980
3115 Vegetable and animal oils and fats	17.8	20.3	2.6	2.2	6.4	5.5
3116 Grain products	21.5	24.0	20.0	18.6	7.3	8.7
3118 Sugar products	9.9	11.5	23.1	18.4	18.6	39.4
3211-1 Cotton fabrics	6.1	14.3	2.5	7.3	1.8	5.0
3211-7 Fiber for textile use	13.0	21.9	10.0	31.5	7.5	7.3
3214-1 Knotted carpets	56.8	59.2	6.7	59.1	0.4	2.2
3215 Cordage, rope, twine	0.7	12.6	10.0	17.3	0.5	1.8
3220-2 Women's, girls', infants' apparel	1.6	14.1	1.4	9.9	1.6	3.1
3220-3 Underwear	4.0	15.0	4.9	19.3	2.1	9.9
3220-4 Leather apparel	5.3	32.7	6.5	31.7	1.4	22.6
3220-5 Headgear	3.7	13.3	2.2	20.1	3.3	5.6
3220-6 Knitted apparel	17.9	50.3	33.7	77.1	37.8	36.0
3231 Tanned, finished leather	9.5	13.9	3.7	7.6	4.7	7.3
3232 Furs	7.3	21.1	1.2	4.1	16.6	9.8
3233 Manufactured leather	1.4	17.3	4.8	26.0	1.5	1.6
3240 Footwear	1.0	7.0	1.0	20.4	0.7	6.9
3720-3 Other nonferrous metals	33.7	28.3	3.9	6.3	23.5	29.5
3853 Watches and clocks	0.5	23.6	0.6	17.9	0.4	5.1
3901 Jewelry	79.6	111.8	3.0	11.7	11.7	18.1
3909-2 Toys, ornaments	5.2	16.9	2.0	16.3	1.6	4.8

Note: Southern Europe is not included in the developing world.

discretion of member countries some important decisions about imports. Subsidies to producers are a very important form of "nonborder protection"; except for agricultural products, they are granted almost exclusively at the discretion of individual governments, though the commission can and does try to limit them, to the extent that "political realities" make this feasible.

It should also be remembered that it is the member countries who, in the EC Council, set down the instructions which define the commission's bargaining stance on such occasions as the renewal of the MFA. These terms of reference, often agreed to after an excruciatingly slow debate in the EC Council, tend to be so rigid that there is little choice for the other party: they must agree or face the risk of a trade war.

All of this suggests that if developing countries are to be successful in increasing exports at the rate which their development requires, they should start from the premise that the effective decision makers for trade policy remain member country governments. The EC procedures are basically a convenient way of pooling the member countries' bargaining power. It is to the task of persuading these governments to accept their exports that they should devote their main efforts.

The figures provided in table 3.7 in fact suggest that twenty-six years after the Rome Treaty was signed, the various national markets in the EC are not yet equally open to developing nations. It will be argued here that these differences reflect structural factors only to a limited extent. The main reason for the differences in openness is the control which governments continue to exercise on accesss to domestic markets.

We start with a discussion of differences which reflect structural factors. The Dutch and Belgian figures for imports of textiles and clothing are a clear example of this. Benelux is a single trading area from the point of view of the administration of the EC MFA regulations, yet developing countries have achieved much higher penetration of the Dutch than of the Belgian market. This is because of the greater strength of the Belgian industry. The large United Kingdom and Belgian imports of "other manufactures" are dominated by diamonds, which the former redistributes to diamond cutters throughout the world, while the latter does the processing itself. Belgium's imports of nonferrous metals reflect historical links with Zaire, which are gradually getting weaker. The Netherlands, a large producer of animal feeds and products made from vegetable oils, imports for this reason large quantities of cassava pellets, oilseed cakes, and oils, which account for its large imports of "food, drink, and tobacco."

Country trade policies are clearly also at work however: the remarkable match between the figures on openness of different markets

Table 3.7 **Openness of Different EC Countries to Imports from developing Countries** (imports as % of apparent consumption)

	Federal Republic of Germany		Belgium		Netherlands		France		United Kingdom		Italy	
	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980
31 Food, drink, tobacco	5.4	5.5	6.4	5.1	8.3	8.3	4.1	4.2	3.5	2.9	3.4	4.3
32 Textiles, clothing, leather (including shoes)	2.6	11.2	2.5	9.9	3.3	15.2	1.1	5.7	4.1	10.4	1.9	7.9
35 Chemicals	0.5	2.5	0.8	5.4	3.9	9.3	3.9	2.8	1.9	1.6	9.6	5.3
372 Nonferrous metals	9.8	10.9	138.9	44.6	9.4	9.8	10.3	7.8	14.6	12.6	21.3	14.6
38 Metal products	0.2	2.2	0.4	1.2	2.4	2.1	0.1	1.0	0.6	3.0	0.2	1.1
39 Other manufactures	7.3	8.8	300	34.5	111.1	12.3	2.2	7.5	69.3	160.0	2.2	28.3
3 All manufactures	1.8	3.4	5.2	5.1	4.3	6.0	1.6	2	2.8	2.5	1.6	3.6

Note: Southern Europe is not included in the developing world.

in table 3.7 and what is known of the underlying trade policy stance of different countries cannot be accidental.

Who the protectionist and nonprotectionist members of the EC are is not difficult to find out: the EC Council alignment in debates of trade policy for manufactures never varies. The Netherlands, the Federal Republic of Germany, and Denmark are for free trade, and the United Kingdom, France, and Italy for a restrictive policy, with Belgium liking protection instinctively but held back by Benelux loyalties. These attitudes are remarkably immune to political shifts. It had been feared that France would become even more protectionist when a popular-front government was elected which advocated "reconquest of the domestic market," but this did not happen; the liberal convictions of Britain's Mrs. Thatcher should have tilted that country's attitude in favor of free trade, but this turned out not to be true. Trade policy appears to reflect a kind of modus vivendi between interest groups, the bureaucracy, and what in France is called the "political class," which does not depend very much on the changing fortunes of parties.

The match between openness and trade policy preference is quite apparent in the figures for imports of "textiles, clothing, leather." These imports are influenced by key decisions on administration of the MFA, which individual governments continue to control, and are also affected by the VER agreements for shoes which some governments have negotiated outside the EC framework. France is by a substantial margin the most closed country, while the Federal Republic of Germany and the Netherlands are very open.

It is particularly interesting to notice that the United Kingdom, which was relatively open to imports from the South in 1970, became relatively closed ten years later. In the early postwar years, that country accepted very liberally imports of manufactures from the Commonwealth members of the developing world, but its import policy has gradually become more restrictive. In recent years, it has been exercising to the fullest possible extent its rights to limit imports under the EC version of the MFA and has in addition pressured low-wage suppliers into accepting VER agreements for such goods as television sets and shoes. The low growth of U.K. imports in the table reflects this gradual policy shift.

The key to success in trade negotiations is to apply diplomacy at the right time and to the right target. Developing countries feel that they have so far been doing poorly in disputes with the EC. Perhaps they would do better if they used their power of persuasion and bargaining strength to deal with the true source of their problems: the countries who in the EC Council argue most strongly in favor of restrictions to their exports.

3.4 The Comparative Advantage of the South in the EC Market: An Attempt at a Diagnosis

This section examines in detail the export performance of developing countries with respect to the EC market. An attempt is made to identify the products for which developing countries have a comparative advantage and to assess the risk that exploitation of this advantage will be thwarted by protection. The judgment will draw on the work of the European Group for Research on Protection, organized in the framework of the World Bank research project on which this paper is based.[3]

The largest group of the manufactured exports from developing countries to the EC has traditionally consisted of resource-intensive products, a consequence of Europe's lack of natural resources. Most of the other exports consist of unskilled-labor-intensive products, again reflecting the relative conditions in developing countries and in Europe. Physical capital intensity, on the other hand, does appear to have a clear-cut impact on the competitiveness of the South. Perhaps, in contrast to the human sort, this capital is mobile enough to equalize returns across countries, so that the amount available does not influence costs of production to an appreciable extent.[4]

There have been indications in recent years that the more advanced of the NICs have been acquiring a comparative advantage for the products of yet a third group of industries. These are sectors characterized by large-scale production, mature technology (which is thus more readily acquired than that of other sectors), and automation (which has made irrelevant labor skills that used to be vital to production). The chief examples are the shipbuilding, steel, and automobile industries. The main constraint is that a high level of industrial competence is required for competitive production—the developing world is strewn with inefficient steel mills, which were built for national pride or because it was believed that they would turn out to be poles of growth for other industries.

These three industries require quite a bit of capital but also much labor. The large size of plants has meant that, in developed countries, unions are very strong and in these plants, which have far above average wage levels and/or a great deal of job padding; these "endogenous distortions," as Bhagwati's (1971) well-known classification labels them, have provided countries where unions are not so powerful or where, as in Japan, they cooperate better with employers with a clear-cut comparative advantage in these industries.

Most of the discussion in this section is devoted to the first two sources of comparative advantage. A brief subsection is devoted to the third.

3.4.1 Simply Transformed Primary Products

About half of developing-countries' exports of manufactures to the developed countries have traditionally been made up of primary products, exported after simple processing, which in most cases added little value to the goods. Such products are manufactures only statistically. (This of course does not mean that their export is less worthwhile than that of "true manufactured goods.") Table 3.8 provides data on these exports.

This category is dominated by three categories of products—vegetable oils and fats, nonferrous metals, and jewelry (largely diamonds)—which together account for two-thirds of the total. Imports of forest products have been growing particularly quickly, a trend which can be expected to continue as more and more developing countries decide to prohibit export of timber in the round. Basic chemicals are included in the table because developing countries tend to sell largely crude or barely elaborated products. Basic chemical sales have tended to grow quite quickly, and there exists a potential for quite a lot more growth if developing countries are quick to seize market opportunities.

The table suggests that the share of crudely elaborated materials in the South's exports of manufactures has not been decreasing. This category accounted for 55% of developing-countries' exports to the EC in 1970; by 1980 the proportion was 53%, a negligible drop.

This apparent stability is misleading, however. Refined petroleum should be considered separately. Here the extremely quick growth of

Table 3.8 **"Barely Transformed Primary Products" in EC Imports of Manufactures from Developing Countries**
(millions of U.S. Dollars)

		Imports		Penetration Rate[a]	
		1970	1980	1970	1980
3115	Vegetable and animal oils and fats	842	3,183	17.8	20.3
3118	Sugar products	284	1,084	9.9	11.5
3211-7	Fiber for textile use	94	380	13.0	21.9
3231	Tanned, finished leather	114	572	9.5	13.9
3311-1	Sawn lumber, etc.	167	1,208	6.1	11.9
3311-2	Veneer plywood, etc.	62	461	5.4	10.4
3511	Basic chemicals	196	1,527	2.0	2.9
353	Refined petroleum	220	7,596	1.5	6.8
3720	Nonferrous metals	2,223	5,175	15.8	12.4
3901	Jewelry	559	5,284	79.6	111.8
Total		4,761	26,470		

Note: Southern Europe is not included in the developing world.
[a]Imports as percentage of apparent consumption.

oil exports is to a large extent a price phenomenon. The efforts of oil-exporting countries to refine their own oil were another contributing factor. Removing oil from the total focuses attention on the products which are of interest mainly to oil-importing developing countries. When this is done, the proportion of crudely elaborated materials in developing-country exports to the EC changes to 52% in 1970 and to 38% in 1980, a substantial drop. Resource-based manufactures have thus accounted for a steadily falling fraction of the South's exports of manufactured goods to the EC.

Sales of most of those commodities are supply, rather than demand, determined. An exceptions is sugar, the export of which is narrowly restricted by the EC's Common Agricultural Policy and by the Lome Agreement, which allow a limited number of African and Caribbean countries to export to the EC fixed quantities of a good of which the EC is a very large net exporter: this is an artificial trade which will not expand. For diamonds, sales are controlled by the Diamond Trading Corporation cartel, but countries that find new deposits have always obtained quotas for the newly obtained output: here supply is what determines exports. Protection of vegetable oils may increase as the EC seeks to find room for Spanish olive oil after that country joins the EC—but a long transition period will postpone the problem for quite a few years. Here the United States is both a powerful competitor of developing-country vegetable oil exporters and a strong ally, which has so far been able to use its bargaining power to prevent higher protection.

3.4.2 Unskilled-Labor-Intensive Products

Textiles, Clothing, Shoes

Exports of textiles, clothing, and shoes account for a fifth of the exports of manufactures by developing countries to the developed countries and have been another mainstay of their export drive. These are the exports hit hardest by protection. The system of restriction contained in the MFA for textiles and clothing is very elaborate. In addition, the EC has concluded agreements outside the MFA with Mediterranean countries and with prospective EC entrants; these have been somewhat more generous, especially the agreements with the latter countries. Lome countries (former colonies in Africa and islands in the Caribbean and the Pacific) are also treated separately. They are not yet significant exporters, and in most cases the EC has not bothered to impose elaborate agreements. They do not enjoy a privileged market access, however. As soon as Mauritius, a Lome country, managed to develop small exports of some textiles and clothing articles, it found that it had to limit its exports to the EC.

How watertight is the system? It is in principle very restrictive, but there are loopholes and safety valves.

The VER agreements define ceilings to the quantities that may be exported. However, countries may increase the value of their exports by exporting higher-quality or more highly processed goods, a shift that can increase the unit value of exports severalfold.

Also, the smaller and newer exporters of textiles and clothing are less tightly controlled than Korea, Taiwan and Hong Kong, the so-called textile NICs. Most of the secondary exporters do not use their quotas fully—India is notorious as a country that is not competitive enough to use its quotas, in spite of wages that are among the lowest in the world. Fairly rapid growth is possible for such secondary exporters if they find ways of exporting successfully on a world market where competition is very hard; an easy way to do so is to invite foreign direct investment from the textile NICs, as Sri Lanka and Mauritius have done, for example.

The EC's agreements with Mediterranean countries are not as watertight as the others, and those countries have benefited from higher permitted growth rates of exports and from looser agreements. Turkey—a prospective entrant—has refused quite successfully to sign any general agreement and has gone on to build up exports using every trick in the rule book and some which the book does not describe. Of course, a good deal of cheating goes on, only a small fraction of which is detected.

An interesting way of viewing the MFA is to regard it as a kind of customs union that shelters the developed market economies behind a common wall of protection. The situation is quite clear-cut. There are special cases as always. Japan is one: it is a "developed country" that does not make use of its MFA rights and is "called," like a developing country, to restrict exports to the United States. Switzerland does not protect its market by quotas or VER agreements, though it does nmake use of more informal protective devices. Apart from such cases, the customs union interpretation is valid. The world is indeed split between a protected market sheltered by discriminatory protection and an "open" market elsewhere, where tariff walls may be very high but are not discriminatory.

Trade theory leads us to expect that such a union should affect trade in well-defined ways. If the discriminatory protection is effective, exports of the customs union producers to third countries should drop if protection increases, as it raises prices on the protected market above the world level; union producers should obtain a rising share of the union's imports as trade diversion occurs. Has this happened?

MFA protection was tightened a great deal during the 1970s: the "customs union of rich countries" has become more closed to the outside world. Yet table 3.9 does not reveal the strong changes in the orientation of trade flows that would be expected. There was a swift growth of imports from low-wage countries into the EC but also of

Table 3.9 **EC Trade in MFA Goods** (millions of U.S. dollars)

	1970				1980			
	Textiles		Clothing		Textiles		Clothing	
	User	Source	User	Source	User	Source	User	Source
Exports/imports								
Developed countries[a]	1,823	740	625	220	5,079	4,363	3,246	1,615
Developing countries[b]	1,261	770	237	550	5,237	5,780	1,516	9,129
Total	3,084	1,510	862	770	10,336	10,143	4,762	10,744
Apparent consumption of respective product	24,602	26,179	10,487	10,579	66,007	66,200	36,541	30,559

[a]Developed countries, excluding southern Europe and intra-EC trade, as users of EC textile and clothing exports and source of textile and clothing imports into the EC.

[b]Developing countries, including southern Europe and CPEs, as users of EC textile and clothing exports and source of textile and clothing imports into the EC.

exports to that part of the world. For textiles, in fact, EC exports to the "open" market grew even faster than exports to the protected one. The latter result is especially surprising: it implies that even today, EC producers remain able to compete on world markets for many products: adaptation to a more open trading system should be possible and perhaps not difficult for these firms. It is true that for the so-called highly sensitive goods, the competitive edge of the textile NICs remains overwhelming. But the rates of market penetration for these goods are quite high already: much of the adjustment that would result from more open trade has already taken place.

There is a good deal of "water" in the MFA system, therefore; some of the protection that a busy and politically powerful industry lobby has won is not really needed.

It is interesting to speculate that the lack of impact of protection on trade flows also reflects a decline in the comparative advantage of the textile NICs for their traditional products. This would be the result of both technological and economic changes. The textiles industry has been undergoing extraordinary technological change, which has slowly turned it into an industry that is quite capital-intensive, thanks to automation, which made it possible for workers to supervise even greater numbers of spinning and weaving looms. Cheap labor is less important for competitiveness than it used to be. A similar revolution is beginning today in the clothing industry (especially for the standardized products, where the competitive strength of low-wage producers has been greatest) as computer-controlled devices begin to be widespread.

Very swift economic change is reinforcing the effect of this technological revolution. Wages in the textile NICs have risen dramatically: the wage rate in Korea, a country that was as poor as India thirty-five years ago, exceeded that in Portugal by 50% in 1983; the wage rate in the other textile NICs was similar. Yet Portugal has been accepted as a member of the EC—though not without a transition period that shields other EC producers from its exports.

From an economic point of view, the present time seems to offer a unique opportunity to experiment with liberalization of textiles and clothing imports. The next renegotiation of the MFA would be the right time for this. The textiles and clothing lobby has acquired such political power over the years, however, that it would be risky to plan on even limited trade liberalization in textiles and clothing.

Table 3.10 provides more detailed information on the pattern of EC trade for textiles, clothing, and shoes. A first question is inspired by Balassa's (1979) concept of "stages of comparative advantage," according to which countries that start on the road to development begin by exporting simple unskilled-labor-intensive goods and then shift to products that embody more human and physical capital as development

Table 3.10 **Percentage of Imports in Apparent Consumption in the EC**

	Textiles			Clothing			Shoes		
	1970	1975	1980	1970	1975	1980	1970	1975	1980
East Asian NICs	0.43	0.85	0.99	2.70	7.01	9.32	0.72	1.25	4.01
Other developing countries[a]	1.67	2.59	4.74	0.40	1.98	6.02	0.27	1.13	2.98
Southern Europe	0.70	1.39	2.40	1.34	4.57	7.07	0.83	3.59	5.85
Italy	1.99	2.98	3.88	5.19	6.05	8.42	6.88	15.13	21.50
Japan	0.30	0.24	0.50	0.24	0.13	1.65	0.14	0.10	0.04
Other suppliers	94.91	91.95	87.49	90.13	80.26	67.52	91.16	78.79	65.62

[a]Excluding southern Europe.

increases their endowment of those factors. This opens the way for countries that begin to develop later to take over the markets relinquished by their seniors.

Has the process been working? For the EC market, at least, the answer so far is negative. Even today the textile NICs can produce textiles and clothing at lower cost than other developing countries, the very great majority of which have not managed to exploit the competitive edge that their lower wage levels might provide. That the exports of the textile NICs grew less than those of other developing countries is due to stricter protection.

Could it be that when they began to enter world markets, their own success was eased by a conveniently timed withdrawal of Japan, which by that time was ceasing to be a low-wage country? The figures do not suggest this. The Japanese withdrawal from the European market was complete in 1970, whereas the major increase in developing-country exports of textile and clothing articles took place after that date.

The hypothesis might perhaps be vindicated by a more disaggregated look. Both Japan and the textile NICs have shifted to higher-quality goods as their industrial skills grew; they have been encouraged to do so both by the working of market forces and by the fact that trade restrictions have been specified in quantities, so that it was profitable to export goods with higher unit values. It is possible that this strategy is leaving open easy "beginners' markets," facilitating the market entry of less experienced exporters today, such as China for instance. The low unit values of Chinese exports would suggest this. Verifying this conjecture would constitute an interesting research project.

Another question on which the table is designed to shed light is the degree to which trade diversion may have been caused by trade restraints. The tightening of MFA controls by the EC in 1977 was a boon to Italy, the lowest-wage country in the EC and an efficient producer of textiles and clothing. Table 3.10 illustrates the sharp export gains achieved by that country between 1975 and 1980. Trade diversion to low-wage member countries can be expected to increase with the entry of Greece, Portugal, and Spain into the EC. Greece, which conducted a very protectionist trade policy before it entered the EC, had not felt it necessary to impose MFA-type controls on imports of textiles and clothing from the South; this shows how competitively it is able to produce these goods. The competitiveness of Portugal is better known.

Again, the point should not be overstressed. The shift in the pattern of Italian trade was not only due to trade diversion; another structural distortion was at work. In the 1970s, large-scale industry in that country was heavily handicapped by social legislation, which enabled trade unions to block measures of rationalization and to force enterprises to retain excess labor almost indefinitely; the large state-run sector went

through a management crisis. This shifted the pattern of comparative advantage in favor of small-scale industries. Many small firms within the so-called submerged economy have in addition managed to escape paying taxes and social security contributions. Similar distortions exist in Spain and Portugal, which will strengthen the tendency of these countries to take over markets for textiles, clothing, and shoes.

Japan remains competitive enough to make it hard for the NICs to breach its domestic market. That country does not make use of the VER agreements of the MFA, though it has used the threat of anti-dumping duties to convince Korea and Pakistan, for instance, to restrict exports of some sensitive products. The very rapid rise of its wage level should have led Japan to lose competitiveness rapidly in textiles, clothing, and shoes, and a high rate of increase of the rate of market penetration should have taken place. Interestingly, the increase of market penetration for these products has been lower than in Korea and Pakistan; but only for shoes is this obviously a result of protection.

The competitiveness of domestic producers again explains why the rate of market penetration into the EC domestic market for shoes is much lower than into the U.S. market. There are VER agreements between some countries of the EC and the main developing-country exporters of shoes, but these are not tight enough to have much effect: what has limited imports is the competitiveness of Italian shoe producers, who are so efficient that, like East Asian producers, they were subjected at times by the United States to VERs.

The most striking finding is, however, that everywhere both exports and imports of these goods rose much faster than production. This striking shift to greater openness to trade must be seen as one of the most important structural changes of the 1970s, to which many producers must have found it difficult to adjust. This must have increased pressures for protection.

In ten years, clothing and shoes switched from being goods that were little traded to goods that are very open to trade. A sophisticated trading system has also come into being, encouraged by lower transportation and communication costs as well as by General Agreement on Tariffs and Trade (GATT) tariff reductions. Even the MFA has stimulated the growth of this network, because the system of regulations which the MFA defines is so complex that it places a premium on the acquisition of specialized trading skills. This paradoxical situation in which discriminatory protection can increase trade could be interpreted in a second-best framework.

Miscellaneous Light Manufactures

In the future, protection will limit the growth of developing-countries' exports of textiles and clothing, and possibly also of shoes. These

countries will have to identify other products, the markets for which remain open. What other goods are there for which developing countries have demonstrated a comparative advantage? Is there room for further growth of their exports? Does the list of such goods tell us something about the markets which they are likely to enter in coming years?

Table 3.11 provides figures that are relevant. The goods listed are light industrial goods whose exports were significant in 1980.

What is striking is the wide range of items listed in the table, from brooms and brushes to computers. Exports of each type of such goods are not large, but the aggregate volume is impressive: $7,387 million,

Table 3.11 **Minor Exports of Manufactures from Developing Countries to the EC** (millions of U.S. dollars)

		EC Imports		Penetration Rate[a]	
		1970	1980	1970	1980
3113	Fruit and vegetable preserves	159	712	4.4	26.2
3114	Fish preservers	71	418	6.3	10.2
3119	Cocoa, chocolate, confectionery	80	455	2.7	3.7
3232	Furs prepared, not sewn	13	108	7.3	21.1
3319	Miscellaneous goods from wood	8	138	1.3	6.7
3320	Nonmetallic furniture	4	114	0.1	0.5
3420-2	Printing, etc.	7	139	0.1	0.5
3551	Tires	3	109	0.1	1.4
3559	Other rubber goods	7	89	0.3	1.0
356	Miscellaneous plastic goods	41	484	0.7	1.8
3610	Porcelain, ceramics, etc.	3	172	0.2	2.6
3811-1	Cutlery	5	74	2.2	11.0
3811-2	Hand tools, other hardware	18	193	0.9	2.9
3819-2	Metal containers	16	256	0.2	1.3
3825-1	Office equipment except computers	7	94	0.3	3.7
3825-2	Computers	16	166	0.9	1.4
3829	Miscellaneous nonelectrical machinery	83	620	0.6	1.1
3832-1	Radio and TV equipment	24	1,087	0.6	8.7
3833	Electrical household durables	1	64	0.0	0.5
3839	Batteries, lamps, etc.	9	190	0.2	1.2
3852-3	Photographic equipment	6	174	1.2	7.3
3853	Watches and clocks	3	557	0.5	23.6
3902	Music instruments	1	42	0.7	4.9
3903	Sport goods	7	224	2.4	14.5
3909-2	Toys	32	480	5.2	16.9
3909-4	Brooms, brushes	1	20	0.3	3.4
3909-5	Umbrellas, pipes, etc.	75	206	18.4	22.8
Total		700	7,387		

Note: Excluding southern Europe.
[a]Imports as percentage of apparent consumption.

half the value of clothing exports. In quite a few instances, exports were negligible fifteen years ago: these exports were "invented" quite recently, as entrepreneurs identified items that could be produced at low cost given the cost structure of developing countries.

The list is made up entirely of unskilled-labor-intensive goods, as economic theory would predict. In some cases, the exports were "invented" by multinationals, who saw that it was profitable to shift to low-wage countries for the unskilled-labor-intensive stages of the production process. Examples are computers and television sets (in the more advanced NICs there are also local companies producing television sets and other consumer electronics items, and even [copied] microcomputers). In the majority of cases, however, it is the local entrepreneurs who have developed the new exports.

As often happens, this neoclassical interpretation of the list of successful exports can be replaced by a neotechnological interpretation. Production of most of the items in the table requires only a limited industrial competence (Westphal, Rhee, and Pursell 1981): the apparent exceptions are largely produced by multinationals, which provide the skilled staff and know-how and locate the unskilled-labor-intensive stages of production in developing countries. Proponents of a neotechnological view of international trade could stress that the goods developing countries are able to produce efficiently are those whose production does not require hard-to-obtain technology or the organizational skills required for large-scale production and which can be marketed without needing to set up an elaborate international marketing network. To the extent that building up human capital is necessary to the acquisition of industrial competence, it is not surprising that the neotechnological and neoclassical interpretations are hard to distinguish. They are not equivalent of course: sending young people to school does not suffice to procure the industrial competence which a country may need. (Westphal, Rhee, and Purcell make the interesting point that an outward-oriented strategy, which introduces the challenge of competition on world markets, is crucial to achieving industrial competence.)

For a few products, the rate of market penetration has become rather high, and exports could encounter absorption limits and possibly new protection barriers (preserves, furs, cutlery, radios and television equipment, watches and clocks, sporting goods, umbrellas, for instance). The econometric work of the European Group for Research on Protection suggests, however, that these minor industries find that the tight protection obtained by larger and more politically powerful sectors (like textiles and agriculture) is difficult to extract from policy makers for themselves. This warrants optimism about the continued openness of markets for these goods. There are import restrictions in

France for quite a few of these goods, but access to other EC markets is quite free (and smuggling into France is easy).

The list should, however, be looked on mainly as indicating the products in which developing countries potentially have a comparative advantage. Many of these exports were only recently "invented"; there will be more such discoveries. Industrial competence has been a limiting factor, but its acquisition is a cumulative process: the range of goods which developing countries are able to produce efficiently will become even broader, enabling further diversification of exports.

3.4.3 The Troubled Mature Trade-Union-Intensive Industries

Finally we will discuss the participation of developing countries in the troubled "new mature industries": shipbuilding, automobiles, and steel (see table 3.12). Production of these goods requires complex technology and skill in running complex industrial operations, which quite a few of the more advanced NICs have acquired by now. Technology for steel and shipbuilding is available fairly freely. Efficient producers of automobiles in the developing world are subsidiaries of multinationals. They are beginning to export to a greater extent as their owners pursue "world car strategies"; one of the two large Korean industrial groups has been able to develop a model and to produce it fairly effectively. Other countries, such as India, are starting to develop automobile industries. They are acquiring the right to produce models developed elsewhere and are obtaining assistance and some capital funds for building the necessary plants. (The CPEs were pioneers in this development but have had only moderate success. The number of cars exported by the CPEs to the EC is of the same order of magnitude as the Japanese total, but the quality is very poor and unit prices are low.)

Exports of these three categories of goods by developing countries were negligible in 1980. For steel, the situation is not likely to change fast. Imports from third countries into the EC are limited by VER agreements, which are not likely to be lifted soon; trading partners who have refused to conclude such agreements have been hit by an-

Table 3.12 **EC Imports from Developing Countries** (millions of U.S. dollars)

	Imports		Penetration Rate	
	1970	1980	1970	1980
371 Steel	195	815	0.6	0.9
3841 Shipbuilding	10	762	0.4	7.6
3843 Automobiles	8	449	0.0	0.4

Note: Excluding southern Europe.

tidumping duties. Meanwhile the EC, which itself resorts to dumping on world markets, is a competitor to be reckoned with on third countries' markets, as is Japan's highly efficient steel industry.

Union power in the EC has had a disastrous effect on the steel industry by preventing adjustment of the labor force and of capacity, but it has also forced member country governments and the EC Council to grant very large subsidies and to virtually close the domestic market to imports. The "endogenous distortion" has been offset by an equally endogenous tariff, which negates the comparative advantage of the foreign producers. Such a situation cannot continue indefinitely, and often-postponed capacity cuts of over thirty million tons were finally agreed to in 1983.

In the long run, there will be no surge of import demand for steel in the Common Market and no sudden decrease in the low-priced exports of EC producers to the rest of the world, unless the business cycle situation improves a good deal more than now seems probable. But over time, the most developed of the NICs are likely to become gradually significant exporters of steel. The world market is very large: the steel exports of the Big Three traders amounted to nearly $35 billion in 1980; even if access to their domestic markets is denied by protection, Europe's steel producers will be slowly displaced from their export markets.

The EC shipbuilding industry is dying rapidly; more than half of the jobs which existed in 1973 have been shed during the recession, and the contraction of the industry continues steadily. Here also the true competitor of developing countries is Japan. Korea, a small producer until a few years ago, has been winning a fifth of world new orders in recent months; there is reason to think that this "infant export" has had a high cost in covert subsidies. Protection in the EC is of little avail to Europe's shipyards. Since shipping is a world industry, tariffs would not be effective. And EC shipyards, which in some recent instances have quoted prices that were three times as high as the Korean ones, can be kept going only by subsidies that are so prohibitive that governments are not willing to continue to give them indefinitely. The industry, which is much smaller than steel, does not have the political weight required to win the protection which it needs to survive.

For automobiles also, prospects depend on a complex interplay among trade unions, multinationals, and the governments of both developed and developing countries. The world market is extremely large, and enormous export opportunities would be created for the developing countries by breaking into the automobile market—of course, this would entail severe competition with Japan. In the developed world tariff walls are of the same order of magnitude as for textiles; in developing-country markets, auto imports are limited by tariffs and domestic content regulations.

In contrast with the situation for steel and shipbuilding, there is no unified lobby arguing for protection of the automobile industry. Automobile companies have found it advantageous to produce the same car in different places, in part to make themselves less vulnerable to trade union pressures but also to amortize the extremely high setting-up costs which launching a new model entails. A good deal of the exports of developing countries is short term in nature; for example, the recession in Brazil has led to substantial exports of cars that could not be disposed of domestically. Another part reflects commitments by producers to earn foreign exchange in return for the grant of a privileged market access. The fact that so much of the trade between the developed and the developing countries will consist of intrafirm trade will check the rise of protection. However, except for Korea, there is as yet no growth of production in the South that is both clearly export-oriented and successful.

In conclusion, there will be no breakthrough in the three industries to match that which the South (and in particular the Far Eastern NICs) achieved for clothing in the 1970s. The coming years should, however, witness steady growth of exports of these products. These markets are so large that the winning of even only small fractions of them could yield substantial amounts of foreign exchange.

3.5 Conclusion

Using a new data set, this paper has discussed export trends for manufactures from the South to the European Community and has drawn implications for future prospects and for policy.

Comparison of the Big Three trading nations (the United States, Japan, and the EC) reveals the United States as the biggest producer and consumer of manufactures. As a trader, the EC makes up for this by being more open to imports, both globally and from developing countries. Japan has a more closed market. The figures reveal clearly the market shifts that have caused tensions in the 1970s: the swift gains in shares by the East Asian NICs, in particular, for textiles and clothing and by Japan for steel, automobiles, and some other metal goods. Both Japan and the East Asian NICs have a large export surplus with the United States of America and Europe, and this has lessened their ability to seek arrangements that might check the increase of protection. The so-called new NICs, the developing countries which are beginning to export manufactures today, are in a more favorable position from this point of view and are net creators of manufacturing jobs on quite a large scale. Their situation is advantageous because trade negotiators and the interest groups which push for protectionism have a tendency to think of primary products as the unambiguously desirable category of imports while imports of manufactures are thought of as needing to

be watched. Market penetration levels are quite low: developing countries are far from having reached any upper bound to their exports to the three trading nations. However, export growth depends on their ability to diversify exports as their export volume rises, an ability they have so far demonstrated.

The figures also reveal the impact of proximity on the intensity of trade, with each of the Big Three trading intensively with nearby developing countries. There is also a curious "backyard effect," where their trade with these countries yields an exceptionally large surplus.

Study of the EC market suggests that member countries retain much tighter control over their domestic markets than is usually thought. Perhaps the EC should be thought of not as a maker of policy in the usual sense but rather as an institutional device which softens economic aggression between its members and enables them to pool their bargaining power in dealing with the outside world. This suggests that influencing member country governments should be the main task of the trade diplomacy of developing countries rather than maintaining links with the EC in Brussels. Such an approach might in fact be more fruitful for all concerned since, by the time that the European Commission comes to the bargaining table, it has usually been assigned so tight a negotiating brief that it is hardly able to take account of unexpected negotiating opportunities that might come up and to seek the deal that is truly most advantageous to all concerned.

The composition of developing-country exports of manufactures to the EC confirms that the primary components of their comparative advantage are the natural-resource and unskilled-labor content of the exported goods. Setting apart refined oil, the share of natural-resource-intensive goods in these countries' exports of manufactures has been falling rapidly, a trend which reflects some missed opportunities that have been lost to natural-resource-rich countries such as Australia, Canada, and the United States. A very large share of other exports consists of unskilled-labor-intensive goods.

The latter goods have been hit by protection, but the EC market continues to be very open. Trade restrictions for textiles and clothing are the strictest of all, but even there, loopholes and safety valves built into the protection system have so far permitted an import growth that is far from negligible. Apart from a few exceptions, any protection for other goods is casual.

For miscellaneous light manufactures, developing countries have shown much inventiveness in spotting opportunities to produce and to export goods which they are able to produce efficiently, given their factor costs and industrial experience; the list of such products is widening as there become more of such "inventions" and as the industrial expertise of developing countries increases.

The last topic discussed in this paper, that of the opportunities that might arise in the troubled "new mature industries" (steel, shipbuilding, and automobiles), is somewhat more speculative. The markets for their products are huge. Exports of their goods from developing countries were very small in 1980. These industries are handicapped both in Europe and in the United States by adversary relations between employers and very powerful trade unions, which keep costs a good deal higher than they should be (an endogenous trade distortion valuable to competitors). The more advanced NICs have shown themselves to be able to master the relevant technology. A breakthrough for these goods is unlikely to be as swift and decisive as that which developing countries achieved for textiles and clothing in the 1970s, because of both the competitiveness of Japanese producers and the protection which these politically powerful industries are able to obtain. But the markets for those goods are so large that, even though market shares remain low, exports of these goods could make quite a large contribution to the foreign exchange receipts of the South.

Notes

1. The project was coordinated by H. Hughes and J. Waelbroeck. A note by V. Panoutsopoulos, presenting the concordances between national production statistics and the ISIC, will be available in the near future. The detailed SITC/ISIC concordance is available on request from the author.

2. Thus figures have to be looked at carefully. "Other manufactures' include diamonds, and because transit trade in diamonds is hard to separate from imports for further processing, some market penetration rates exceed 100%. Refined petroleum has a large weight in group 35, and this accounts for the high penetration rate in that row of the table.

3. For econometric studies of the determinants of protectionism, see Cable and Rebelo 1980; Glisman and Weiss 1980; Grilli and La Noce 1983; Koekkoek, Kol, and Mennes 1981, Lundberg 1981; Messerlin 1982; and Tharakan 1980.

4. For econometric work of the World Bank group on comparative advantage of EC countries, see Cable and Rebelo 1980 and Tharakan 1980. In addition, F. D. Weiss has provided a survey of German research on that country's comparative advantage (1983), while a detailed discussion of Sweden's comparative advantage is given in Ohlsson 1982.

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