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# **U.S. Trade Policy Towards Developing Countries**

Bela Balassa

**The U.S. market has generally been more hospitable to imports from developing countries than have the markets of other industrial countries.**

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The United States has often been criticized for protectionist measures taken against developing country products. Yet, average agricultural protection has remained practically nil in the United States over time while rising in the European Common Market and, even more, Japan. It further appears that manufactured imports from developing countries have increased much more rapidly, and reached higher levels, in the United States than in the European Common Market and, in particular, Japan.

The U.S.-Japan comparisons for manufactured goods do not conform to the data on the extent of nontariff barriers, as measured by the share of imports from the developing countries which are subject to such barriers. The solution to the puzzle lies in part in the inadequacies of

data on the share of imports subject to nontariff measures for gauging the protective effects of such measures and in part in the reliance on formal measures of protection in the United States as against the use of informal measures in Japan.

More generally, one may explain the results obtained by reference to the openness of the U.S. market that has generally been more hospitable to imports from developing countries than have the markets of other industrial countries, particularly Japan. This has been the case even for clothing and textiles, where developing countries have in large part gotten around the restrictions by introducing new fibers and upgrading products.

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# U.S. TRADE POLICY TOWARDS DEVELOPING COUNTRIES

Bela Balassa \*

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## U. S. TRADE POLICY TOWARDS DEVELOPING COUNTRIES

A policy adviser to developing countries, who recommends greater outward orientation for these countries, often encounters the reply that protectionism in the industrial world in general, and in the United States in particular, thwarts the efforts of countries that attempt to open their economies. The criticisms tend to be concentrated on the United States, which has the largest domestic market and whose actions have attracted the greatest publicity.

This paper will review the measures applied by the United States in regard to its imports from the developing countries as well as actual changes in these imports. In the course of the discussion, comparisons with other major industrial countries, the European Common Market and Japan, will also be made.

### I. Nontariff Barriers to Imports

As is well-known, industrial country tariffs have been greatly reduced in the course of multilateral trade negotiations undertaken since the Second World War. Tariff reductions have been extended to imports from the developing countries under the most-favored-nation clause, even though these countries have offered few concessions of their own.

While the lack of reciprocal concessions has meant that tariffs have been lowered less on products of interest to the developing countries than overall, the reductions have been very substantial. Thus, post-Tokyo Round import duties on semimanufactures and finished manufactures originating in the developing countries average only 8.7 percent in the United States, 6.7

percent in the European Common Market, and 6.8 percent in Japan. <sup>1/</sup> Furthermore, within certain limits and excluding so-called sensitive items, duty-free entry has been provided for imports from the developing countries under the General Scheme of Preferences.

It has been charged, however, that reductions in tariffs have been more than offset by the increased application of nontariff measures that limit imports in quantitative terms. Among these measures, quantitative import restrictions, including import prohibitions, quotas, and import licensing, as well as so-called voluntary export restraints, limit imports directly. In turn, variable import levies, minimum price requirements for imports, "voluntary" export price restraints, and tariff quotas, involving the imposition of higher duties above a pre-determined import quantity, have an indirect effect on imports.

Table 1 provides information on the share of imports subject to nontariff measures, calculated by using world trade weights. The use of world trade weights allows for differences in the relative importance of individual tariff items in international trade while abstracting from the idiosyncracies of national protection. <sup>2/</sup> In contrast, calculating for a particular country the percentage share of imports subject to restrictions is equivalent to using own imports as weights, which means that the more restrictive the measure the

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<sup>1/</sup> The corresponding figures for total imports are 4.9, 6.7 and 6.8 percent (GATT, 1980, pp. 33-37).

<sup>2/</sup> Nevertheless, to the extent that all, or most, developed countries apply quantitative import restrictions to the same commodities, for example textiles, their share in world trade will be lowered, thereby affecting the world trade-weighted average of nontariff measures (Balassa and Michalopoulos, 1987).

Table 1

Relative Shares of Imports from the Developing Countries  
Subject to Nontariff Measures, 1985  
(World Trade Weighted)

	<u>US</u>	<u>EEC</u>	<u>Japan</u>
Nonfuel products, together	12.9	21.8	10.5
Agriculture	11.8	27.5	30.2
Manufacturing, total	14.4	21.4	5.4
Textiles and clothing	65.3	65.2	14.2
Footwear	0.0	12.5	42.2
Iron and Steel	4.5	28.9	0.0
Electrical machinery	0.0	4.7	0.0
Transport equipment	0.0	4.6	0.0
Other manufactures	1.9	5.3	1.9

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Source: Nogues, Olechowski, and Winters, (1986) and the sources cited therein.

lower its weight in the calculations; in the extreme, prohibitive restrictions have zero weight. <sup>1/</sup>

Table 1 reports on nontariff barriers for nonfuel imports and, within this total, for agricultural and for manufactured imports in the United States, the European Common Market, and Japan; it further disaggregates manufactured goods into textiles and clothing, footwear, iron and steel, electrical machinery, transport equipment, and other manufactures. Fuels have not been included because the nontariff measures applied do not appear to aim at protecting the domestic production of competing products, such as coal.

The data show that the United States applies nontariff measures to a smaller proportion of its agricultural imports originating in the developing countries than does either the European Common Market or Japan. This result reflects the fact that while the United States protects its sugar growers from imports originating in the developing countries, in the EEC and Japan protection extends to much of temperate zone agriculture.

The scope of manufactured imports from the developing countries that are subject to nontariff measures is also smaller in the United States than in the European Common Market. This is so for all product categories other than textiles and clothing, the imports of which are limited under the Multifiber Arrangement (MFA) in both cases. Thus, in contrast to the Common Market, the United States does not employ nontariff measures to limit the imports of footwear, electrical machinery, and transport equipment from the developing

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<sup>1/</sup> A case in point is the restrictions imposed on automobile imports from Japan. While U.S. imports were set at over 20 percent of domestic sales, the French quota equals 3 percent of sales and Italy admits 11,000 automobiles from Japan.

countries. And, the share of commodities subject to such barriers is lower in the United States than in the EEC in the case of iron and steel as well as for other manufactures.

The reported share of manufactured goods imported from developing countries that are subject to nontariff measures is lower in Japan than in the United States. This is because Japan does not limit its textiles and clothing imports in the framework of the MFA and, apart from footwear, it has few formal restrictions on manufactured imports in the remaining categories. But, Japan has imposed limitations on textiles and clothing imported from developing countries whenever such imports assumed importance and has used informal measures of protection in regard to various other manufactured goods (Balassa, 1986a). The effects of these measures will be apparent as we consider the growth of imports from developing countries in Section III below.

## II. Other Border Measures

The data reported in Table 1 do not include other border measures that could, but may not, be used with protective intent. Countervailing actions, taken in response to export subsidies, and anti-dumping actions, taken in response to sales below cost or below the home-market price, as well as the initiation of investigations into such unfair trading practices and the monitoring of imports have been classified in this category (Nogues, Olechowski, and Winters, 1986). <sup>1/</sup>

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<sup>1/</sup> Health and safety measures and technical standards may also be used with a protective intent, but the relevant data are difficult to obtain. Furthermore, in concentrating on border measures, the discussion excludes domestic measures, such as production subsidies which also bear on imports.



Some authors have included countervailing and antidumping actions, investigations into unfair practices, and the monitoring of imports with the nontariff barriers described in Section I above and report data by combining the two sets of measures (Nogues, Olechowski, and Winters, 1986). <sup>1/</sup> To evaluate this practice, the countervailing actions initiated in the United States will be examined in the following.

As shown in Table 2, in the first half of the 1980s substantial increases occurred in the number of petitions for countervailing action against developing country exporters in the United States. There were 112 such cases in 1980-85, compared with 2 cases in 1973-74 and 45 in 1975-79. By contrast, in the European Common Market and Japan, respectively, there were only 3 and 1 countervailing duty cases in the 1980-85 period (Nam, 1986, Tables 2 and 3).

While the number of countervailing actions against developing countries increased in the United States, the number of such actions against industrial countries declined compared with the 1975-79 period (Table 2). This divergence may be explained by the fact that the Tokyo Round code on subsidies reaffirmed the prohibition of export subsidies by the industrial countries while for developing countries it maintained the possibility of granting export subsidies. Also, the large majority of countervailing actions were initiated against highly-indebted Latin American countries that

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<sup>1/</sup> The initiation of actions against such unfair trading practices and the monitoring of imports have also been included in the calculations.

Table 2  
Countervailing Actions in the United States Against Industrial  
 and Developing Country Exporters (1970-1987)

Year	Exporter	Number of Initiations	Final Outcome				Average countervailing duty rates <sup>3/</sup>
			Affirmative	Alternative Arrangements <sup>1/</sup>	Negative <sup>2/</sup>	Pending	
1970-74	Industrial	9	8	0	1	0	n.a.
	Developing	2	2	0	0	0	n.a.
1975-79	Industrial	59	20	0	39	0	n.a.
	Developing	45	18	0	27	0	n.a.
1980	Industrial	2	0	0	2	0	0
	Developing	6	5	1	0	0	8.3
1981	Industrial	6	0	1	5	0	0
	Developing	4	1	1	2	0	15.8
1982	Industrial	30	3	16	11	0	11.5
	Developing	31	13	13	5	0	10.2
1983	Industrial	3	2	0	1	0	10.7
	Developing	13	7	1	5	0	10.9
1984	Industrial	10	4	1	5	0	8.6
	Developing	30	11	7	12	0	12.7
1985	Industrial	12	5	2	5	0	15.5
	Developing	28	10	4	14	0	21.5
1986	Industrial	8	4	1	3	0	4.8
	Developing	20	12	2	6	0	37.8
1987	Industrial	3	1	0	2	0	25.1
	Developing	6	2	0	1	3	32.8
1980-87	Industrial	74	19	21	34	0	11.3
	Developing	138	61	29	45	3	18.4

<sup>1/</sup> Cases withdrawn under an alternative arrangement involving e.g. the elimination of subsidies.

<sup>2/</sup> Cases withdrawn voluntarily by petitioners or rejected by the authorities.

<sup>3/</sup> Simple average of subsidy rates for affirmative cases.

Source: Table prepared by Ms. Azita Amjadi of the World Bank.

instituted export subsidies during the period under consideration, <sup>1/</sup> and the share of affirmative decisions was generally greater, and countervailing duty rates substantially higher, in the case of these countries than for the Far East. <sup>2/</sup>

At the same time, an increasing number of petitions for countervailing action initiated against developing countries in the United States were settled by alternative arrangements, which did not involve the application of countervailing duties. In particular, the exporter's government removed the subsidies that had given rise to the petition in the first place.

In turn, the share of negative decisions in the total declined by nearly one-half between 1975-79 and 1980-85. All in all, the share of affirmative decisions in countervailing actions initiated against developing countries remained approximately the same, amounting to two-fifths of the total. But affirmative decisions accounted for only one-and-a-half percent of U.S. imports from these countries in 1980-85, and the average countervailing duty levied was 13.2 percent. Thus, the additional duty imposed was less than 0.2 percent of U.S. imports from the developing countries.

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<sup>1/</sup> In the 1980-85 period, there were 26 such actions against Mexico, 16 against Brazil, 6 against Peru, and 5 each against Argentina and Venezuela. This compares with 8 actions against Korea, 3 against Singapore and Taiwan each, and none against Hong Kong although the latter has larger exports to the United States than any Latin American country.

<sup>2/</sup> In 1980-85, the share of affirmative decisions in the total was 80 percent in Argentina, 31 percent in Brazil, 38 percent in Korea, 54 percent in Mexico, 67 percent in Peru, and nil in Singapore, Taiwan, and Venezuela; average countervailing duty rates were 15.8 percent for Argentina, 14.1 percent for Brazil, 2.4 percent for Korea, 10.8 percent for Mexico, and 22.7 percent for Peru (Nam, 1986, Table 4).

The number of countervailing duty cases against developing countries declined to a considerable extent in recent years. Countervailing action was initiated in 20 cases in 1986, compared with 30 such cases in 1984 and 28 cases in 1985. Moreover, there were only 6 cases of countervailing action initiated against developing countries in 1987.

The time pattern of countervailing duty cases may be explained by changes in the value of the U.S. dollar. Thus, the increased number of countervailing duty petitions after 1980 may find their origin in the growing overvaluation of the U.S. dollar that accentuated the injury due to export subsidies. In turn, the subsequent depreciation of the dollar may have contributed to the observed decline in the number of countervailing duty cases by offsetting the injury due to export subsidization.

Between 1980 and 1985, the dollar appreciated by 29 percent in real terms, calculated by adjusting the trade-weighted average of the nominal exchange rate for changes in wholesale prices in the United States and abroad; the extent of appreciation was more than double the average rate of countervailing duties applied during this period. In turn, the dollar depreciated by 35 percent in real terms between 1985 and 1987.

At the same time, countervailing actions are "GATT-conforming" as they are sanctioned by Article VI of the General Agreement and they correct distortions due to export subsidies. And while it has been argued that the negative correlation between comparative advantage and countervailing and anti-dumping actions reflect a bias toward protectionism (Finger, Hall, and Nelson, 1982), it stands to reason that industries suffering from foreign competition will initiate such actions. This will be the case, in particular, when the injury test is applied, since industries that are at a comparative

disadvantage are likely to suffer an injury as a result of export subsidization abroad.

It should further be noted that countervailing and anti-dumping actions involve the imposition of duties and are thus different in character from nontariff measures that limit imports in quantitative terms. One may also query the inclusion of investigations of unfair trading practices and the monitoring of imports under nontariff measures. While uncertainty is created thereby, this does not represent the actual application of nontariff measures.

1/ Thus, it is appropriate to limit the scope of nontariff measures to the actions included in Table 1.

### III. Nontariff Protection and Imports

The next question concerns the protective effects of nontariff measures. For this purpose, the tariff equivalent of such measures may be calculated. Under competitive conditions, this can be expressed as the percentage difference between domestic and international prices or the nominal rate of protection.

Nominal rates of protection have been estimated for agricultural products. While the averages have been calculated for a group of products that have varying importance for the developing countries, the data indicate the overall level of agricultural protection in the industrial countries as well as changes over time.

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1/ It should be added that the long delays of the U.S. Administration in dealing with petitions for countervailing and dumping actions create uncertainty for U.S. business. For example, the U.S. Department of Commerce has still not determined 1980 Japanese dumping margins for television sets (New York Times, December 14, 1986).

Whereas average agricultural protection in the United States remained approximately nil, the extent of protection was high to begin with and increased further subsequently in the European Common Market and, in particular, in Japan during the 1960-80 period. Thus, the average nominal rate of protection on agricultural products rose from 41.1 percent in 1960 to 83.5 percent in Japan and from 32.8 percent to 35.7 percent in the European Common Market (Honma and Hayami, 1986). Utilising data on nominal rates of protection and on supply and demand elasticities, it has further been estimated that, in terms of 1984 prices, the elimination of nontariff measures on agricultural products would lead to increases in imports of \$8.8 billion in Japan, \$12.4 billion in the European Common Market and \$0.5 billion in the United States (Tyers and Anderson, 1986).

Price comparisons are difficult to make for most manufactured goods, which are largely differentiated products that vary in quality and specifications. In the absence of price comparisons, then, one cannot appropriately gauge the level of protection that nontariff measures on manufactured products provide. <sup>1/</sup> However, the restrictiveness of nontariff measures may be indicated in an indirect way. For this purpose, use has been made of data on the share of imports from developing countries in the domestic consumption of manufactured goods in the industrial countries (the import penetration ratio).

Table 3 provides information on the share of imports from the developing countries in the domestic consumption of manufactured goods in the

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<sup>1/</sup> On the unreliability of existing estimates, see Balassa and Balassa, 1984.

United States, the European Common Market, and Japan for the years 1973, 1978, 1983, 1985, and 1987. The data show that, during the period under consideration, the import-penetration ratio for manufactured goods increased the most in the United States, followed by the European Common Market and, much behind, Japan. Thus, while the ratio rose from 1.1 percent in 1973 to 4.6 percent in 1983 in the United States, the increases were from 0.9 to 2.7 percent in the European Common Market and from 0.7 to 1.2 percent in Japan.

It appears, then, that although Japan is not party to the MFA and has few formal barriers to imports from the developing countries (the major exception being footwear), it has increasingly lagged behind the other major industrial countries in importing manufactured goods from the developing countries. Yet, with its rapid economic growth and the accumulation of physical and human capital, Japan has approached the other industrial countries in terms of factor endowments, and one would thus have expected it to resemble their import pattern more closely. The fact that the opposite has happened may be taken as an indication of the use of informal measures of protection against developing country exports in Japan.

Nor can one explain the results by the overvaluation of the U.S. dollar relative to the European and Japanese currencies. <sup>1/</sup> In fact, the rise of import penetration ratios decelerated in the United States during the 1983-85 period when the bulk of the dollar's appreciation occurred and it accelerated between 1985 and 1987 when the dollar depreciated. Also, similar

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<sup>1/</sup> This conclusion is supported by statistical evidence for the industrial countries, which does not show the existence of a correlation between changes in import penetration ratios and in real effective exchange rates (Balassa, 1986b).

Table 3

Relative Importance of Manufactured Imports from Developing Countries

	<u>Import-Penetration Ratio</u> <u>(in current prices)</u>				
	<u>1973</u>	<u>1978</u>	<u>1983</u>	<u>1985</u>	<u>1987</u>
United States	1.1	1.8	3.0	3.4	4.6
European Common Market	0.9	1.6	2.1	2.6	2.7
Japan	0.7	0.8	1.0	1.2	1.3

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Sources: 1973, 1978, and 1983 GATT, International Trade; United Nations, Yearbook of Industrial Statistics and OECD, Indicators of Industrial Activity, various years. 1985 and 1987 GATT and OECD data tapes.



changes in real effective exchange rates in the European Common Market and Japan were accompanied by differential changes in import penetration ratios, and the appreciation of their currencies between 1985 and 1987 was accompanied by a slowdown in the rise of import penetration ratios. <sup>1/</sup>

The observed differences in import penetration cannot be explained by the availability of natural resources or other objective factors either. This is apparent from comparisons of actual and hypothetical imports of manufactured goods from the developing countries, the latter being determined by per capita incomes, population, transportation costs, and the availability of natural resources. The results show Japan to be an "outlier," with actual imports falling short of hypothetical imports by a substantial margin (Balassa and Noland, 1988). <sup>2/</sup>

#### IV. Conclusions

We have seen that average agricultural protection has remained practically nil in the United States while rising over time in the European Common Market and, even more, in Japan. It further appears that manufactured imports from developing countries have increased much more rapidly, and reached higher levels, in the United States than in the European Common Market and, in particular, Japan.

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<sup>1/</sup> The result pertaining to Japan may appear surprising in view of the off-cited rise in Japanese imports of manufactured goods from the developing countries. But the trade data are measured in terms of U.S. dollars and the increase in terms of yen, relevant for making comparisons with the domestic consumption of manufactured goods, was attenuated by the appreciation of the yen vis-a-vis the dollar.

<sup>2/</sup> The same results have been obtained in regard to total imports as well as for primary imports.

The U.S.-Japan comparisons for manufactured goods do not conform to the data on the extent of nontariff barriers, as measured by the share of imports from the developing countries which are subject to such barriers. The solution to the puzzle lies in part in the inadequacies of data on the share of imports subject to nontariff measures for gauging the protective effects of these measures and in part in the reliance on formal measures of protection in the United States as against the use of informal measures in Japan.

The data of Table 1 on the share of imports subject to nontariff measures indicate scope of the application of these measures but not their protective effect. Thus, a particular commodity category being subject to nontariff measures is compatible with widely different levels of imports. Also, the United States has traditionally used formal measures of protection while Japan and, to a lesser extent, European countries have relied on informal measures that are difficult to evaluate.

More generally, one may explain the results obtained by reference to the openness of the U.S. market that has generally been more hospitable to imports from developing countries than the markets of other industrial countries, in particular Japan. Despite attempts made to increase restrictions in recent years, this has also been the case for textiles and clothing, where developing countries have in large part gotten around the regulations by introducing new fibers, such as ramie, as well as upgrading products.

This is not to say that one should underestimate the danger of protectionist pressures in the United States. While President Reagan vetoed the highly-protectionist textile bills prepared in a two years' interval, protectionist pressures remain strong in Congress. It is necessary,

therefore, to combat these pressures by emphasizing the economic as well as the political advantages of an open trade system for the United States. It should further be noted that the highly-indebted developing countries need markets so that they can continue servicing their loans.

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