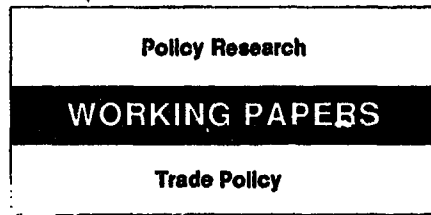


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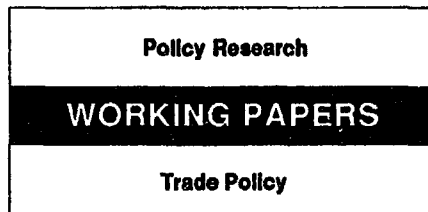
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# Fortress Europe and Other Myths Concerning Trade

Jean Baneth

Free trade in manufactures is a reality in most industrial countries. There is little more to gain from further trade liberalization. But there is much to lose from any retreat from the open multilateral trading system, or even from threats to it. To preserve the system, the benefits of free trade should be made more tangible through better domestic structural and macroeconomic policies that would raise growth rates and lower unemployment.

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Developing countries sometimes still resist free trade because of the alleged protectionism of industrial countries — a myth belied by facts, says Baneth.

Import growth in the industrial countries accelerated during the 1980s, while income growth slowed. Outside of agriculture (only about 2 percent of GDP) and with the possible exception of Japan, free trade — not protectionism — is the reality.

Despite the march toward a frontier-less Europe, EC manufactures imports from nonmembers rose faster than intra-EC trade, and imports from developing countries rose fastest. Similar tendencies prevailed in North America. This pattern of imports contradicts the myth of widespread, effective, and growing barriers to manufactures imports. Protectionist rhetoric is up because imports are increasing, not because trade barriers are rising. The rising share of developing countries, despite their often weak bargaining positions, shows that multilateral rules, rather than bargaining, threats, and counter-threats, still drive the system.

In the 1980s, manufactures imports rose to 40 percent of manufacturing production in the United States and to 25 percent in the European Community (not including imports from EC members; including those, manufactures imports rose to 87 percent of manufactures production in the United Kingdom, 67 percent in France, and 53 percent in West Germany). But in Japan, manufactures imports in 1990 were less than 12

percent of manufacturing production, and their dollar value was smaller than Italy's.

Granted, some protectionism persists everywhere, but it is an irritant rather than a true obstacle to trade. For that reason, further trade liberalization can bring the industrial countries little additional benefit in terms of faster growth, though retreat from free trade holds huge potential losses. Only improved domestic policies — structural and macroeconomic — can raise investment, accelerate growth, reduce unemployment, and consolidate support for free trade.

Developing countries should view the United States and the European Community as open markets for their manufactures exports. Even in agriculture, policy reform over the present decade should reduce inefficiencies. Meanwhile, analysts should be careful to disaggregate: industrial countries' agricultural policies that have truly harmed food exporters, like Thailand, should not be blamed for the ills of food importers, like most African countries.

Selective trade restraints may have blunted but not countered the dynamism of newly industrialized countries and accelerated their shift toward more sophisticated exports. As their barriers to manufactures imports are generally low, the preferences industrial countries grant to developing countries carry similarly low benefits. They help nascent exporters benefit from good policies, but they do not overcome the handicap of bad policies.

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**"FORTRESS EUROPE"**  
**AND OTHER MYTHS ABOUT TRADE**  
**POLICIES TOWARDS MERCHANDISE IMPORTS**  
**IN THE EC**  
**AND**  
**IN OTHER MAJOR INDUSTRIAL ECONOMIES**  
**AND THEIR IMPACT ON DEVELOPING COUNTRIES**

by

**Jean Baneth**

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## INTRODUCTION AND SUMMARY

### Rampant protectionism or rising imports?

i. Ingrained protectionism in the developed North is still sometimes used in developing countries as an argument against the benefits of free trade (*"they would not be doing it if it were not good for them - and if it is good for them, it should be good for us"*) and as a deterrent to its practice (*"free trade may be best for all; but the North is not practicing it, and it takes two to tango"*). In recent years, many developing countries have in fact liberalized their trade policies, and moved towards greater reliance on exports; they must have had faith in the penetrability of trade barriers. However, the dirge lamenting the demise of free trade and the growth of industrial country protectionism has been taken up by professional economic analysts, notably those of international organizations. The same song also accompanies the slow-down in the economic growth of industrial countries, and its attendant ills: unemployment, lagging wages, growing discontent. To deal with these, further trade liberalization is the main advice, often the only advice, of many economists.

ii. This paper examines the behavior of industrial countries' imports in the 1980s, in comparison with earlier periods, and in relation to the evolutions of domestic aggregates like GDP and manufacturing production. Trade policies are not examined directly, but through their impacts on trade. The paper finds that import growth into the industrial countries accelerated during the very decade when their domestic growths slowed down. It concludes that, with the possible exception of Japan, and the certain exception of agriculture (an important sector, but one that nevertheless represents well below 3 percent of industrial country GDPs) the free trade paradigm describes reality best - not protectionism. Developing countries have been among the prime beneficiaries of this liberal trade environment. Industrial country protectionism cannot be blamed for the global economic ills of the 1980s. Its further reduction or even elimination would not provide much room for speedy improvement. Indeed, far from being able to regain macroeconomic dynamism through further trade liberalization, industrial countries need to redeem dynamism through other means in order to preserve the liberal trade regimes they have already achieved.

### The European Community: a wide open "fortress".

iii. The crescendo of voices deploring growing protectionism has concentrated much of their vigor on the European Community (EC), as epitomized by comments about emerging "Fortress Europe". If indeed European protectionism is vigorous, growing and effective, its impact should be reflected in the actual evolution of trade. In an environment of rising protectionism, imports should fall, in absolute value or at least in relation to income. If protectionism centered around the construction of a common market, participants should increasingly trade with each other, and rely less on other imports. If, as is often said, developing countries are particular targets of protectionism, their share in the common market should fall even faster than import shares in general.

iv. The Common Agricultural Policy (CAP) has indeed protected European agriculture from imports; the EC's food and other agricultural imports rose much less than intra-EC trade in the same

commodities. However, agriculture accounts for less than 3 percent of EC GDP. In industry, free trade has been the dominant force. Manufactures imports into the Community from non-members rose more than trade in manufactures among members, despite the surge in trade with the three countries that joined the Community during the period. The dollar value of imports of manufactures into the EC rose by over 150 percent during the decade<sup>1</sup>. Meanwhile, the value of manufacturing production<sup>2</sup> rose by less than 60 percent. This openness has been particularly beneficial to developing countries, whose share in EC manufactures imports rose from 20 to 24 percent.

*the U. S. and Japan*

v. With some variants, these conclusions also apply to the United States. It too has exclusionary agricultural policies, but is an open market for manufactures, and has seen the ratio of manufactures imports to its GDP and manufacturing production soar during the supposedly protectionist 1980s, to levels that now exceed those of the EC considered as a whole. Just as EC imports grew faster than intra-EC trade, manufactures imports into North America rose faster than trade in manufactures between the US and Canada. Nevertheless, this mutual trade remains important; excluding it, the ratios of North America's total imports and manufactures imports to its combined GDP are somewhat lower than the EC's corresponding ratios.

vi. Japan is in sharp contrast with the two other large trading areas. It too seems to have moved towards greater liberalism in the 1980s, and (contrary to earlier periods) its manufactures imports rose faster than production. Nevertheless, in 1990 its manufactures imports were still smaller than those of Italy or Canada; they amounted to less than 12 percent of industrial production, about 3 percent of GDP, as against 40 percent and 7 percent respectively for the US and 25 percent and 6 percent for the EC, much larger entities with consequently lower expected import ratios. By comparison, manufactures imports into the U. K., France and Germany<sup>3</sup> amounted to 87 percent, 67 percent and 53 percent of their manufacturing productions.

vii. The data do not preclude the persistence of some protectionist measures, the levying on imports of light but persistent tolls. Industrial countries are clearly not free traders in the Ricardian sense, nor even like Hong-Kong. They also use a variety of subsidies; in the EC, where they are best documented (if not necessarily the most widespread) they were estimated to about 89 billion ECUs, well over \$100 billions annually in the period 1988-1990. Some of these are bound to be trade-distorting.

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<sup>1</sup> Throughout this paper, imports into the EC will refer to imports from non-member countries. Imports of EC members from each other will be called "intra-EC trade", or EC intra-trade. For data sources, see Table 2.

<sup>2</sup> The contribution of the manufacturing sector to GDP.

<sup>3</sup> All data relate to the former West Germany only.

for developing country manufactures exporters: effectively free trade

viii. Nevertheless, the observed increase in imports, its wide distribution across sectors, and its persistence over the years contradict any hypothesis of rampant protectionism (except perhaps in Japan), of effective and growing barriers to manufactures imports. The faster growth of imports from developing countries (with often weak bargaining positions) indicates that multilateral rules rather than bilateral bargaining, threats and counter-threats, still constitute the motive force of the system. Protectionist rhetoric and threats there have been; but their very frequency signals the rise in imports, not in protectionist barriers. To paraphrase Huxley, the stereotype growing protectionism epitomized by Fortress Europe is another beautiful scientific hypothesis slain by ugly facts.

ix. Developing countries should view the EC and the US as open markets for manufactures exports, where protectionism against non-agricultural exports is just a slight frictional cost. Agriculture is a different story, of mostly closed and managed markets. But here too radical change is in the offing, and should considerably reduce the inefficiency of this sector over the next decade. Meanwhile, developing countries collectively benefit from the lower agricultural prices brought about by industrial country policies. This is noted, not as an argument in favor of these policies, but to stress the importance of disaggregation. The troubles of food importers like Nigeria should not be blamed on policies that truly hurt food exporters like Thailand.

x. As overall barriers to imports are low, most preferences granted to developing countries are of similarly low benefit. Nevertheless, they have been of significant help to some nascent exporters. They have also benefitted from selective trade restraints on some of the exports of a few very successful exporters, which provide them some shelter from their most effective competitors, and at least marginally accelerate their entry into the manufactures markets of the industrial economies that grant them such preferences, primarily the EC. These restraints may have blunted but not countered the dynamism of the newly industrializing countries; most likely, they have accelerated their shift towards less labor-intensive exports.

xi. These data are fully consistent with a direct examination of trade policies and tools. Tendencies to tighten them in the early 1980s have been effectively resisted and reversed; in Europe, the very process of unification has been a force for broader trade liberalism. In the U. S. too, protectionist noises have generally been just that, not effective, let alone rising, barriers.

trade, efficiency and growth

xii. The importance of trade policies should not be minimized. Further improvements in them may hold out little promise for widespread benefits, because in industrial countries they already approximate free trade. However, any retreat from the open multilateral trading system, even credible threats to it, hold enormous potential for negative impacts on investment, efficiency and incomes.

xiii. In most industrial economies, manufactures imports rose much faster than production in the 1980s; in many, the manufacturing trade balance tilted to the negative. Manufacturing production rose slowly at best. Manufacturing, once a source of employment, became the major source of unemployment. As manufacturing sectors are already open, further opening, even radical, cannot give much impetus to efficiency or acceleration to growth. In agriculture, there is much room for trade liberalization, but its low share also precludes such an impetus coming from it. Conversely, low growth and low investment limit the economic benefits of trade liberalization, and maximize the social and political costs of import competition. They thus endanger past gains. One has to look to internal obstacles and to macroeconomic policies, not to further trade liberalization, to raise investment shares and boost growth rates.



## I. OVERALL IMPORTS, PRIMARY COMMODITIES AND ENERGY.

1. A funeral choir of economists has bemoaned the demise of free trade and the rise of protectionism in industrial countries in the 1980s. Yet meanwhile, the growth of merchandise imports into industrial countries accelerated sharply, during the very decade when the growth rate of GDP fell to its lowest decennial level since the Great Depression. From 4.4 percent during the period 1965-1980, the annual average growth rate of imports into OECD countries rose to 5.2 percent during the 1980s, while the growth rate of GDP fell from 3.7 percent to 3.1 percent<sup>4</sup>.

2. Table 1 shows the implied apparent increase in import elasticity from 1.11 during the 1965-80 period to 1.67 during the 1980s - hardly a sign of effective import restraints or of surging protectionism. Import elasticity rose in every OECD country except Switzerland. In the US, it rose from 2.03 to 2.23. The palm went to the EC's two newest members, Spain and Portugal<sup>5</sup>. Both had below unit import elasticities before 1980, and 2.9 and 3.0 respectively in the last decade when they moved to the EC's liberal import policies. Even Australia and New Zealand, though they still have abnormally low import ratios, liberalized their trade policies and raised their import elasticities, Australia from .25 to 1.38 and New Zealand from .46 to 1.9.

3. The elasticities in Table 1 are derived from of import and GDP growth in constant prices. While often useful, such estimates are necessarily ambiguous; they depend, notably, on the chosen base year. Also, by abstracting from price fluctuations, they neither describe the impact of import growth on exporters (whose earnings may precede or lag behind volume changes), nor the relationship of import expenditure to income in the importing countries. Growth rates in current prices are influenced by general inflation; but ratios (notably, those of imports to GDP and to various components of it) do not have that defect and have the additional merit of being unambiguous and precise. Of course, they too must be treated with caution. In particular, a given import-dependency, relative to GDP, signifies more open trade policies for a larger than for a smaller economy: it stands to reason that, with a given tightness of trade restraints, the ratio of imports to GDP would be lower for the US than for Monaco! This is well illustrated in Chart 1, which shows the logarithms of GDPs on the X-axis, and the ratio of GDP to all imports and to manufactures imports on the Y-axis. With a few outliers (Belgium and the Netherlands for high ratios, New Zealand, Australia and Japan for low ones) the inverse relationship is striking.

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<sup>4</sup> *World Development Report 1992*, The World Bank, Washington DC, WDI Tables 2 and 14. Growth rates are in constant 1980 prices.

<sup>5</sup> Portugal and Greece are EC members; they and Turkey are OECD members but the World Bank classifies them with *Developing Countries*; they are excluded from the averages for OECD members given earlier in this paragraph.

TABLE 1

IMPORTS AND IMPORT ELASTICITIES OF INDUSTRIAL COUNTRIES<sup>67</sup>

	1990	1965-80	1980-90		
	GDP	Imports	manuf. imports	import elasticity	
	\$billions	GDP	GDP		
Ireland	42500	0.4874	0.409	0.98	1.16
N. Zealand	42760	0.2214	0.188	0.46	1.90
Portugal	56820	0.4458	0.348	0.67	3.07
Greece	57900	0.3403	0.262	0.90	2.39
Norway	105830	0.2541	0.229	0.68	0.86
Denmark	130960	0.2410	0.195	0.61	1.65
Finland	137250	0.1970	0.164	0.78	1.38
Austria	157380	0.3174	0.283	1.42	1.52
Belgium	201113	0.5950	0.488	1.33	1.55
Switzerland	224850	0.3088	0.275	2.25	1.73
Sweden	228110	0.2390	0.203	0.67	1.59
Netherlands	279150	0.4510	0.352	1.12	1.84
Australia	296300	0.1341	0.121	0.25	1.38
Spain	491240	0.1781	0.139	0.96	2.90
Canada	570150	0.2032	0.179	0.52	2.47
U. S.	975150	0.2306	0.194	0.60	1.58
Italy	1090750	0.1615	0.124	0.81	1.75
France	1190780	0.1953	0.158	1.08	1.45
Germany	1488210	0.2293	0.188	1.60	1.86
Japan	2942890	0.0786	0.056	0.76	1.37
U. S.	5392200	0.0956	0.077	2.03	2.23
North America	5962350	0.078	0.058		
E. C.	6004573	0.099	0.062		
OECD	15728210.0	0.1566		1.11	1.67

<sup>6</sup> Source: *World Development Indicators (WDI)*, the World Bank, Washington D. C. 1992. The share attributed to manufactures imports is often different from that in GATT data; they probably include commodities classified by GATT as semi-manufactures. Data on total imports are very similar.

Data for Belgium include trade and GDP of Luxembourg.

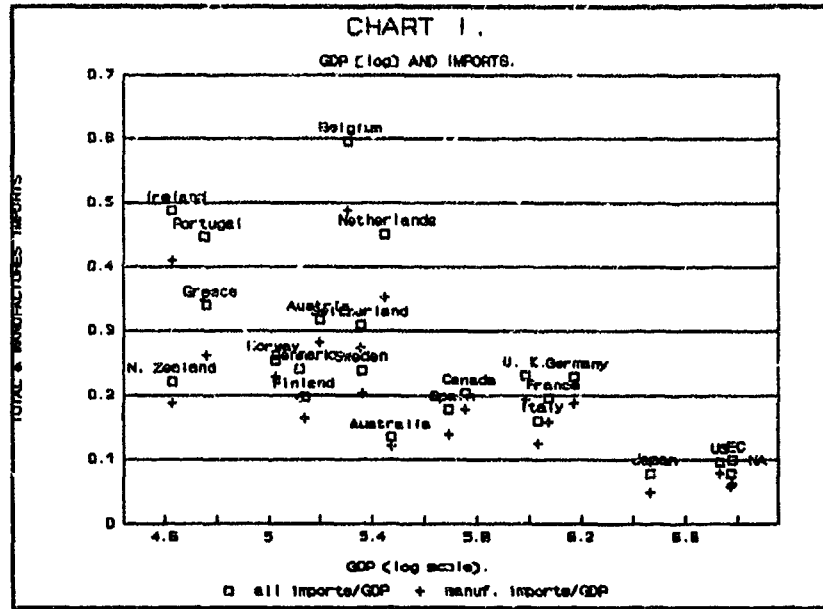
Data for "North America" exclude trade between the United States and Canada. Data for "EC" exclude trade among EC member countries.

Data for the "OECD" refer to country averages as shown in WDI. They include mutual trade among OECD members. They exclude countries not classified as "high income" by the World Bank, i.e. Turkey (not shown in the Table), Greece and Portugal.

<sup>7</sup> SOURCE: *WORLD DEVELOPMENT INDICATORS, WORLD DEVELOPMENT REPORT 1990*, the World Bank, Tables 3 (GDP), 2 (growth of GDP), 14 (imports and growth of imports) and 15 (manufactures imports)

Figure 1 INDUSTRIAL COUNTRIES: IMPORTS AND GDP

4. The member countries of the EC are the world's most open industrial economies. This is partly the result of trade within the Common Market itself, as members' imports from each other amounted to almost 14 percent of their combined GDP<sup>8</sup> in 1990. Total merchandise imports of EC member countries are equivalent to almost a quarter of their GDP, roughly comparable to the import/GDP ratios of much smaller economies like New Zealand or Finland. The Netherlands' 1990 GDP was about the same as Australia's, while its merchandise imports were three times higher. Estimates of trade in commercial services are rather more imprecise than those of merchandise trade, and must be treated with caution. As national data rarely indicate origins and destination, adjustments for intra-EC trade and estimates of EC imports are unavailable. Mostly for that reason, this Report concentrates on merchandise trade; but the wisps of information available on trade in services do not contradict its findings.



Estimates of trade in commercial services are rather more imprecise than those of merchandise trade, and must be treated with caution. As national data rarely indicate origins and destination, adjustments for intra-EC trade and estimates of EC imports are unavailable. Mostly for that reason, this Report concentrates on merchandise trade; but the wisps of information available on trade in services do not contradict its findings.

5. Considering only trade with non-member countries, the EC had an import/GDP ratio of over 9.9 percent in 1990, as against 9.6 percent for the United States<sup>9</sup>. The ratio was 8 percent for Japan, a much smaller economy with a poorer natural resource base. The EC is a major producer both of energy (German coal, British petroleum and Dutch natural gas) and of agricultural commodities. Yet its imports of primary commodities (including energy) were higher, in proportion to GDP, than those of the US (as was to be expected, given the large area and vast natural wealth of the United States) and not much lower than Japan's (3.7 of GDP as against 4.6 percent).

<sup>8</sup> Import data from GATT except when otherwise indicated. National Account GDP come generally from the World Bank, World Tables (WT), and are converted by taking the World Tables conversion factors, which are essentially annual average exchange rates. In a few cases, manufacturing production data have been obtained from the World Bank's World Development Indicators (WDI). Manufacturing production for the EC as a whole had to be estimated, because of a gap in country data.

<sup>9</sup> Except if otherwise specified, all references to EC concern the twelve present member countries. For the sake of simplicity, imports into the EC from the outside will be referred to as "imports". Trade among EC members will be called intra-EC trade, or "intra-trade".

TABLE 2<sup>10</sup>

## GDP, MANUFACTURING PRODUCTION, MANUFACTURES IMPORTS AND EXPORTS.

## PART A - I

	BILLION US DOLLARS					RATIOS			
	GDP	M <sup>manuf.</sup> value added	all imp.	manufactures imp.	manufactures exp.	total import GDP	manuf import GDP	manuf import manuf prod	manuf export manuf prod
	<u>1980</u>								
AUSTRALIA	148	22	22	15	6	0.15	0.10		
AUSTRIA	77	22	24	17	15	0.32	0.22	0.75	0.65
FRANCE	652	179	135	73	81	0.21	0.11	0.40	0.45
GERMANY	819	301	187	98	162	0.23	0.12	0.32	0.54
ITALY	394		99	44	65	0.25	0.11		
N.LANDS	168	49	101	41	37	0.60	0.24	0.83	0.75
SPAIN	198		34	13	15	0.17	0.06		
UK	523	118	119	71	82	0.23	0.14	0.60	0.69
JAPAN	1040	307	141	25	123	0.14	0.02	0.08	0.40
US	2587	645	253	124	142	0.10	0.05	0.19	0.22
CANADA	253	48	59	41	30	0.23	0.16	0.86	0.62
N. AM.	2840	693	229	111	124	0.08	0.04	0.16	0.18
EC	3125	939	389	146	241	0.12	0.05	0.16	0.26
intra-EC			385	263		0.12	0.08	0.28	
total EC			774	410		0.25	0.13	0.44	
	<u>1985</u>								
AUSTRALIA	162	28	26	19	5	0.16	0.11	0.67	0.17
AUSTRIA	66	18	21	15	15	0.32	0.22	0.79	0.79
FRANCE	510	128	108	64	72	0.21	0.13	0.50	0.56
GERMANY	625	194	158	90	158	0.25	0.14	0.46	0.82
ITALY	359		88	41	67	0.24	0.11		
N.LANDS	125		65	37	35	0.52	0.29		
SPAIN	164		30	13	17	0.18	0.08		
UK	454	100		73	66	0.00	0.16	0.73	0.66
JAPAN	1343	403	130	32	169	0.10	0.02	0.08	0.42
US	3962	792	361	251	154	0.09	0.06	0.32	0.19
CANADA	346	55	76	61	51	0.22	0.18	1.11	0.92
N. AM.	4308	848	314	222	116	0.07	0.05	0.26	0.14
EC	2532	671	315	140	228	0.12	0.06	0.21	0.24
intra-EC			349	237		0.14	0.09	0.35	0.00
total EC			664	377		0.26	0.15	0.56	0.00

TABLE 2

## PART A - II

## GDP, MANUFACTURING PRODUCTION, MANUFACTURES IMPORTS AND EXPORTS.

	BILLION US DOLLARS					RATIOS			
	GDP	Manuf. value added	all imp.	manufactures imp.	manufactures exp.	total import GDP	manuf import GDP	manuf import manuf prod	manuf export manuf prod
					1990				
AUSTRALIA	296	44	42	32	15	0.14	0.11	0.71	0.34
AUSTRIA	157	41	49	41	37	0.31	0.26	0.99	0.89
FRANCE	1191	251	233	172	161	0.20	0.14	0.69	0.64
GERMANY	1488	458	343	245	354	0.23	0.16	0.53	0.77
ITALY	1091	242	180	113	149	0.17	0.10	0.47	0.61
N. LANDS	279	57	126	89	78	0.45	0.32	1.55	1.36
SPAIN	491	124	88	62	42	0.18	0.13	0.50	0.34
UK	975	195	230	170	147	0.24	0.17	0.87	0.76
JAPAN	2943	849	235	100	275	0.08	0.03	0.12	0.32
US	5392	921	517	375	290	0.10	0.07	0.41	0.32
CANADA	570	67	116	93	73	0.20	0.16	1.39	1.10
N. AM.	5962	988	462	343	233	0.08	0.06	0.35	0.24
EC	6012	1488	594	373	439	0.10	0.06	0.25	0.47
intra-EC			818	630		0.14	0.10	0.42	0.00
total EC			1412	1003		0.23	0.17	0.67	0.00

SOURCE: WHEN AVAILABLE, GATT TABLES complemented with WORLD BANK World Development  
 EC "manufacturing production": personal estimate based on incomplete national data.  
 Total imports for Italy, Netherlands and Spain: International Monetary Fund, International Financial  
 Statistics.

## PART B - 1

## CHANGES, 1980 - 1990

	BILLION US DOLLARS					RATIOS				
	GDP	MANUF. PRODUCT.	ALL IMPTS	MANUFACTURES IMPTS	MANUFACTURES EXPTS:	:GDP	MANUF. PRODUCT.	TOTAL IMPTS	MANUFACTURES IMPTS	EXPTS
AUSTRALIA	148	44	20	17	9	:100		16	26	-23
AUSTRIA	80	19	25	24	22	:104	85	100	142	154
FRANCE	539	71	98	100	80	: 83	40	73	137	99
GERMANY	669	157	155	147	192	: 82	52	83	151	119
ITALY	697	242	81	69	84	:177		81	155	129
N.LANDS	112	8	25	48	41	: 67	17	25	119	111
SPAIN	293	124	53	49	27	:148		157	382	180
UK	452	77	111	99	65	: 87	65	93	138	80
JAPAN	1903	542	94	75	152	:183	176	67	299	124
US	2805	276	264	251	148	:108	43	104	202	104
CANADA	317	19	57	52	43	:125	38	97	125	144
N. AM.	3122	295	234	232	110	:110	43	102	210	89
EC	2887	549	204	227	198	: 92	59	52	155	82
			434	367						
			638	594						

## CHANGES 1980-85

AUSTRALIA	14		4	4	-1	: 10		16	26	-23
AUSTRIA	-11	-4	-4	-2	0	: -14	-17	-15	-13	1
FRANCE	-142	-52	-27	-9	-9	: -22	-29	-20	-12	-12
GERMANY	-194	-107	-29	-8	-4	: -24	-36	-15	-8	-3
ITALY	-35	0	-12	-3	2	: -9		-12	-8	3
N.LANDS	-43	-49	-36	-4	-2	: -25	-100	-35	-10	-6
SPAIN	-34	0	-4	0	2	: -17		-12	0	14
UK	-69	-18	-119	2	-16	: -13	-15	-100	2	-19
JAPAN	303	96	-11	7	47	: 29	31	-8	27	38
US	1375	148	108	127	12	: 53	23	43	102	8
CANADA	93	7	17	20	21	: 37	15	29	49	69
N. AM.	1468	155	86	111	-7	: 52	22	38	100	-6
EC	-593	-267	-75	-7	-12	: -19	-28	-19	-5	-5

## PART B - II

## CHANGES 1985-90

	BILLION US DOLLARS					RATIOS				
	GDP	MANUF. PRODUCT.	ALL IMPTS	MANUFACTURES IMPTS	MANUFACTURES EXPTS	: GDP	MANUF. PRODUCT.	TOTAL IMPTS	MANUFACTURES IMPTS	EXPTS
AUSTRALIA	134	17	16	13	10	: 82	61	62	70	217
AUSTRIA	91	23	28	26	22	: 138	123	135	179	150
						:				
FRANCE	680	123	125	108	90	: 133	97	115	169	125
GERMANY	863	265	184	155	197	: 138	137	116	173	124
ITALY	732	242	92	72	82	: 204		105	177	122
N. LANDS	154	57	61	52	43	: 123		93	143	126
SPAIN	327	124	58	49	25	: 199		192	382	145
UK	521	95	230	97	81	: 115	95		133	123
						:				
JAPAN	1600	446	105	68	106	: 119	111	81	215	62
US	1430	129	155	124	137	: 36	16	43	49	89
CANADA	224	11	40	32	23	: 65	20	53	51	44
N. AM.	1654	140	148	121	117	: 38	16	47	55	101
						:				
EC	3480	817	279	234	210	: 137	122	89	167	92
						:				
AUSTRALIA	148		22	15	6	: 0.15	0.10			
AUSTRIA	77	22	24	17	15	: 0.32	0.22	0.75	0.65	
FRANCE	652	179	135	73	81	: 0.21	0.11	0.40	0.45	
GERMANY	819	301	187	98	162	: 0.23	0.12	0.32	0.54	
ITALY	394		99	44	65	: 0.25	0.11			
N. LANDS	168	49	101	41	37	: 0.60	0.24	0.83	0.75	
SPAIN	198		34	13	15	: 0.17	0.06			
UK	523	118	119	71	82	: 0.23	0.14	0.60	0.69	
JAPAN	1040	307	141	25	123	: 0.14	0.02	0.08	0.40	
US	2587	645	253	124	142	: 0.10	0.05	0.19	0.22	
CANADA	253	48	59	41	30	: 0.23	0.16	0.86	0.62	
N. AM.	2840	693	229	111	124	: 0.08	0.04	0.16	0.18	
EC	3125	939	389	146	241	: 0.12	0.05	0.16	0.26	
intra-EC			385	263		: 0.12	0.08	0.28		
total EC			774	410		: 0.25	0.13	0.44		

6. Though import elasticities were rising and much higher than unity, the ratio of imports to GDP fell in the 1980s in most industrial economies, as the relative price of imports fell. Relative to the industrial countries' GDP deflators, the prices of energy and other primary commodity imports declined throughout the 1980s, with few remissions, to their lowest levels in perhaps a century. Thus expenditure on such imports fell more than import volumes. Even those commodities whose usage and imports increased faster than GDP generally fell in relation to GDP in value terms.

7. In fact, the income-elasticity of demand for most energy and other primary commodities has been low in industrial countries. Material-saving technical progress has long been reducing the raw material content of production.<sup>11</sup> This long-term phenomenon accelerated in the 1980s, as energy-saving technological change (often initiated during the preceding decade) matured, as the share of material production in GDP fell (the obverse of the much-heralded "services revolution"), and as investment shares in GDP remained depressed. Primary commodity imports were additionally compressed by growing energy production in the EC (petroleum in Britain, gas in the Netherlands and nuclear, mostly in France and Belgium) and by agricultural protection policies throughout the industrial world, including the EC's common agricultural policy (CAP).

8. As a result, from 1980 to 1990 the ratio of energy and other primary commodity imports to GDP fell from 4.15% to 2.6% in the US, from 11.2% to 4.6% in Japan and from 7.8% to 3.7% in the EC. Intra-EC trade performed better, its ratio to GDP falling only from 3.9% to 3.1%. Similarly in North America, energy and other primary commodity trade between Canada and the United States actually rose as a proportion of their combined GDPs, from 0.0067% to 0.0077%.

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<sup>11</sup> Neolithic craftsmen had increased one hundred-fold the yield of their raw material, stone, to 20 meters of cutting edge per kilogram, from the 20 centimeters obtained by their paleolithic ancestors.



## II. IMPORTS OF MANUFACTURES BY THE EUROPEAN COMMUNITIES

9. Import-dependency for primary commodities is (like for everything else) partly influenced by policies, like widespread agricultural protectionism, the domestic pricing of energy (low in the US, high in Europe and Japan), or subsidies (like those for coal in Germany). However, they are more closely determined by natural mineral wealth endowments and new discoveries, the availability of agricultural land and the suitability of climate, and similar factors not responsive to policies. The value and share of primary commodity imports are also heavily dependent on their fluctuating prices. Manufactures imports are much more responsive to trade policy. The examination of their evolution, in absolute value and in relation to various other indicators, reveals more about trade policies than that of primary commodity imports.

10. It is also more important. The share of primary commodity imports in total trade has long been falling. Trade in manufactures has been the most dynamic component of total trade. For developing countries, it has been the main engine of ascent to higher levels of productivity and incomes. And it is also against manufactures imports that trade barriers are supposed to have proliferated in the 1980s.

11. The European Community was absorbing three new members during the 1980s. The single European Act was adopted, and the expanded EC was gearing up for the introduction of the fully common market by 1992. It was presumably because of this that the term "Fortress Europe" was re-invented, and it was claimed that the EC, "driven by ... the fortress mentality promoted by Europe 1992, [has] become increasingly inward-looking" ... <sup>12</sup>.

12. The reality of trade is in sharp contrast with these images. Manufactures imports into the EC rose by 155 percent during the decade. Intra-EC trade in manufactures, though given a vigorous impulsion by three new members, and later by the march towards the completion of the common market of 1993, nevertheless rose by only 139 percent. The difference, while small, is significant. Manufactures trade between EC member countries (like trade between Canadian provinces or Swiss Cantons) may not be completely free from discrimination, but it is free tariffs and quantitative restrictions, and there are mechanisms, actively used, to combat and eliminate informal and other residual internal trade restraints. If nevertheless manufactures imports increased faster than intra-EC trade, the level and efficacy of restraints on imports from the outside cannot have been very high. Strange "Fortress Europe", curious "inward-looking" behavior, that allows imports from the outside to grow faster than trade among members of the supposed Fortress!

13. Though the 1980s were a period of slow income growth, economic strains and protectionist pressures, the ratio of manufactures imports to EC GDP rose from 4.7% to 6.2%. Even more significant is the relationship of manufactures imports to manufactures production<sup>13</sup>: it rose from

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<sup>12</sup>World Bank Policy Research Bulletin, May-July 1992, p.3

<sup>13</sup> See Footnote 1

16 to 25 percent; a 59 % increase in the dollar value of manufactures production was accompanied by a 155% surge in the dollar value of manufactures imports. Far from slowing down after the proclamation of the Single European Act, the growth of manufactures imports into the EC actually accelerated after 1985.

14. Nor was a wider "Fortress Europe" being formed. EC manufactures imports from EFTA members rose by 146 percent, marginally more than intra-EC trade, but less than imports from all other sources. Manufactures imports from Japan, the target of the broadest and sharpest import-resistance, rose by 215 percent over the period, thus increasing the country's share both over non-EC and EC suppliers. The United States did less well, but manufactures imports from that source still rose by 115%, much more than the increase in manufactures production.

15. What is true for manufactures in general is also true for the majority of individual sectors. The GATT database used in this Report lists 6 categories of *primary products*, 3 categories of semi-manufactures (*Iron and steel, Chemicals and Other*) and 13 categories of *Manufactures* (Annex table 2). Intra-EC trade increased more than imports in primary commodities and in semi-manufactures other than iron and steel, but in only two categories of finished manufactures, *other transport equipment* and *textiles*. In all other categories of manufactures, imports rose more than intra-EC trade; generally much more (see *Annex Table II*).

### III. THE EC, THE UNITED STATES AND JAPAN IN COMPARISON.

16. In 1980, manufactures imports amounted to 4.8% of GDP and to 19.3% of manufacturing production in the US, and to 4.7% of GDP and 15.6% of manufacturing production in the EC. Given the larger sizes of the EC GDP and manufacturing sector, the degrees of openness were quite comparable.

17. US import ratios rose more sharply during the decade, to 7 percent of GDP against the Community's 6%. Two thirds of Canada's manufactures trade is with the United States, a higher ratio than that of intra-EC over total imports of EC members. Considering North America as a single zone reduces the 1990 North American ratio to 5.2 percent, for a GDP similar in size to the EC's; a decade earlier, the North American ratio was significantly lower than the EC's. The contrast relative to manufacturing production is even sharper, as the US import ratio doubled over the decade, to over 40 percent. The same ratio also doubled for North America as a whole, rising from 16 to almost 35 percent. Meanwhile, the ratio of manufactures imports to manufacturing production rose to 25 percent in the EC.

18. As Table 2 shows, manufactures imports into the US increased extraordinarily fast during this period, by more than 200% in value (the rise in Canada was a more sedate 125%). The United States also stands out in a different way, by the contrast between the fast rise in its manufactures imports and the slow rise in its manufacturing production. In dollar value, US GDP doubled during the decade (a greater increase than the OECD average), manufacturing production (value added) rose by a mere 43% (less than the OCDE average) and manufacturing imports trebled.

19. Table 2 brings out major changes in the relationships of imports and exports to each other and to manufacturing production in selected industrial countries. In most, the share of manufacturing in GDP fell during the 1980s. This was due more to supply than to demand conditions, as is shown by steep increases in manufactures imports. These were usually very large relative to the base year value of manufacturing production, and also relative to the increase in the value of manufacturing production during the period. All but three countries also show a reduction in their net manufactures export surplus. The US shares these syndromes fully, but not to an exceptional extent. Even the increase in its manufactures trade deficit by a quarter of its original manufactures production is exceeded by the U. K. and probably by Spain. One after another traditional "industrial countries", long net exporters of manufactures, turned into net importers. Such large import increases combined with deteriorating trade balances in manufactures signal difficult adaptation problems in the manufacturing sectors, and may well have contributed to them.

20. Three of the sample countries stand out as exceptions to the general tendency: Italy and, most strongly, Germany and Japan. Their manufactures imports also rose faster than production and exports; indeed, Japan's manufactures imports rose 2.4 times faster than its exports, the highest such ratio for the sample countries. However, their manufactures export surpluses at the beginning of the period were so high that they actually increased in absolute dollar values.

21. Part of this export surplus in manufactures was due to relatively high shares of manufactures exports in GDP and in manufactures production. However, in 1990, when data are most complete, Italy's and Japan's export ratios were far from exceptional; even those of Germany were exceeded by the Netherlands and Austria, and almost matched by the U. K. More remarkable are the relatively low ratios of manufactures imports to production that characterize these countries. The ratio is egregiously low in Japan; and low by European standards even in Italy and Germany. The ratio of manufactures imports to manufactures production is lower in Italy than in Spain; and much lower in Germany than in France or the U. K. (Table 2). Cause or effect, the more competitive exporters have also better resisted import penetration.

22. In summary, during the 1980s manufactures imports into industrial countries rose at exceptional rates to exceptionally high levels in relation to GDP. Meanwhile, domestic manufacturing sectors were losing in importance relative to GDP, not so much because of the increased share of services - a long-standing, progressive phenomenon - but because of the inability of domestic manufacturing industries to hang on to their shares of domestic and export markets. This new phenomenon has sometimes been called "de-industrialization". In the US as well as the EC (and in most of the latter's member countries) manufacturers lost more markets to imports than they gained in exports. Protectionist rhetoric undoubtedly increased; but it increased most in those countries where net imports rose fastest. It was not only in the US that the rising stridency of protectionist rhetoric signalled a rising tide of imports, whose very strength demonstrates that the rhetoric should not be mistaken for the actual manifestation of protectionist policies.

#### IV. MANUFACTURES IMPORTS FROM DEVELOPING COUNTRIES

23. This import expansion was not confined to industrial country suppliers. Much has been said about a supposed tendency of trade to gravitate to industrial countries, to be internal to manufacturing branches and even to multi-national firms, and to concentrate on high-technology goods: all reasons to be concerned about its bypassing developing countries. The accession of the new Mediterranean EC members, themselves developing (Greece and Portugal) or just recently developed (Spain), and EC preferential trade relations with the seven members of the European Free Trade Association (EFTA) may also have given cause for concern. So might the preferential trade relationship, developing into a free trade area, between the US and Canada, and bilateral pressures by industrial country trading partners on Japan.

24. In reality, manufactures imports from developing countries grew much faster than imports<sup>14</sup> from industrial countries into all three major trading areas. In the EC, their dollar value rose by 207% from 1980 to 1990 while manufactures imports from industrial countries rose by 142%. Even Japan, the most dynamic industrial country source of EC manufactures imports, did only marginally better than developing countries did overall.<sup>15</sup> The phenomenon is widespread across sectors. Among finished manufactures, only in "other transport equipment" (much influenced by aeronautic products) and in power generating machinery did developing countries do somewhat less well than industrial country exporters. While textiles and clothing imports from developing countries rose only marginally faster than from other sources, in sectors like machinery (other than power-generating) and office equipment, their shares rose substantially both relative to intra-EC trade and to other industrial country suppliers. EC imports of "machinery and transport equipment" from developing countries now much exceed those of textiles and clothing. The overall share of developing countries in EC manufactures imports rose from about 19 percent in 1989 to about 24 percent in 1990.

25. Similar findings can be made for the US and Japan. In these markets, the 1980 shares of developing countries were about twice as high as in the EC; in both, they rose faster than imports from other sources. Already in 1980, developing countries collectively supplied more manufactures to the US (\$33 billions) than did either Japan (\$32 billions) or the EC (\$31 billions), while in Japan developing countries (\$7 billions) preceded the EC (\$6 billions) and followed the US (\$9 billions). In 1990, developing countries vastly increased their advance in the US market (\$131 billions, against \$91 billions from Japan and \$71 billions from the EC), and acquired one in Japan (\$34 billions against 29.6 from the US and 29.2 from the EC). While there are differences in the relative strengths of developing countries in the three markets, the breadth of their advance is general. Inclusion of "Eastern Europe" would obviously increase the shares of developing countries, and mostly lower the

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<sup>14</sup> Except when otherwise indicated "Developing Countries" include the high-income Middle and Far Eastern economies (other than Japan) and China; they exclude Eastern Europe.

<sup>15</sup> SOURCE: GATT data files (see Annex Tables).

1980-90 growth rates. Either of these effects would be significant, however, only for iron and steel<sup>16</sup>.

26. Developing country success in penetrating industrial country markets for manufactures was broad-based by country origin too. The Asian "tigers" continue to dominate developing country manufacturing, and their share remains heavy. They are rapidly joined by exporters from the rest of Asia (most prominently China, whose exports of manufactures to the EC quadrupled<sup>17</sup>, but also Thailand, Indonesia, Malaysia...). However, many other developing countries also did better than the traditional industrial country exporters. Even in the EC manufactures imports from Latin America, though small, rose faster than imports from North America; in the US, their share rose from 5.4% to 8 percent, not all from Mexico. New manufactures exporters have appeared, like Bangladesh, Morocco, Mauritius...

27. Twelve developing countries appear on GATT's list of "leading exporters of manufactures"<sup>18</sup>. All but one of them have increased their shares in the 1980s. Thailand raised its global market share six-fold, from 0.1 to 0.6 percent; debt crisis-torn Mexico raised its share two and a half-fold, from 0.4 to 1.1 percent; even India's share increased from 0.4 to 0.6 percent. Brazil alone just maintained its share - a better performance than that of most industrial countries.

28. Developing countries could not have made such progress if there had been much discrimination against their exports to industrial countries. Undoubtedly, some restrictive measures have been directed against the most dynamic exporters, mostly Japan and some other Asian countries. That they were still among the most dynamic is an indication that most such measures had more bark than bite. They may have slowed down their overall export growth, without preventing them from continuing to increase their market shares. More likely, they have caused the composition of the manufactures exports of these countries to change, often accelerating movement towards more dynamic sectors.

29. In any case, such selective protection has not harmed developing country exporters in general. It forms part of a pattern of preferences offered to developing countries. Almost all benefit from the general scheme of preferences (GSP). In the EC, "Least Developed" countries get specific additional benefits: e. g., a waiver of Multifiber Agreement (MFA) restrictions. Almost seventy African, Caribbean and Asian (ACP) countries, signatories of the "Lome" agreements, receive financial help and even more preferential trade treatment. The inclusion of trade preferences in such a network of links boosts confidence in their durability. Close free trade area and even closer association agreements link the EC to most Mediterranean countries, and now to four East European ones; a similar arrangement is being negotiated with the Persian Gulf countries. Specific exemptions from all

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<sup>16</sup> On EC relations with East Europe, see also section ... infra.

<sup>17</sup> GATT

<sup>18</sup> *Hong-Kong, Taiwan, Korea, China, Singapore, Mexico, Brazil, Malaysia, Thailand, India and Portugal. International Trade 1990-91, General Agreement on Tariffs and Trade, GENEVA 1992, Vol II, p. 36*

restrictions for "outside processing" of garments also benefit markets with special links, North Africa in the case of France (Morocco has now overtaken Italy as the largest garment supplier to that country), East Europe for Germany.

30. These arrangements provide a margin of actual preference to a broad range of potential suppliers. The margin is small, because the general regime is liberal: even complete exemption from tariffs of 4% is not a determining factor; it certainly cannot overcome more than the most modest handicaps of domestic conditions and policies. Only a handful of countries have actually derived sizable benefits from these preferences. Mauritius is the outstanding case among ACP countries, Bangladesh among the least developed, Morocco, Tunisia and Turkey among the Mediterranean countries. All these countries helped themselves, and were additionally assisted by "infant exporter" benefits derived both from explicit preferences granted to them, and from mild protection directed against the most dynamic exporters. Even some of the NIEs, targeted by such protective measures, may not have lost more from them than they gained from similar measures more energetically targeting Japan.

31. Except for the GSP, such differentiated and more favorable treatment of developing countries has been less prevalent in the other two large markets. Mexico has greatly benefitted from special export zone agreements which, in effect, place certain Mexican manufacturers into the US custom zone; Caribbean countries have derived some benefit from the Caribbean Basin Initiative, an export processing arrangement similar to the EC's outside processing arrangements.

## V. A CASE STUDY: TEXTILES, CLOTHING AND THE MFA.

32. The Multi-fiber Agreement (MFA) is probably the best known set of restrictions targeting developing countries. Various studies have pointed at its cost, both for consumers in industrial countries and for exporters. Yet trade throws another light on these estimates.

33. "Though being a member of the MFA, Switzerland has not resorted to quantitative import restrictions"<sup>19</sup> on textiles and clothing. Yet "the vast majority of Switzerland's imports in textiles and clothing are registered as being from EFTA countries or the EC ..."<sup>20</sup>. Even after correction for indirect imports, the GATT Secretariat estimates that 30 percent of Switzerland's textiles and clothing imports come from developing countries, including East Europe. Japan is another industrial country that does not apply quantitative restrictions to textiles and clothing imports. The 1990 share of developing countries amounted to 81 percent in its imports of clothing, and to 58 percent in its textiles imports. Both shares have been falling in the 1980s.

34. By contrast with these countries, the US does apply MFA restraints on imports from developing countries. Yet 89% of US clothing imports and 54 percent of US textiles imports came from developing countries in 1990, a larger overall shares of developing countries in textiles and clothing imports that are larger, per capita, than those of either of the two unrestricted importers. The proportion for the EC was 75 percent for clothing and 45 percent for textiles, much higher than in unrestricted Switzerland and only marginally lower than in Japan, a difference surely easily explicable in terms of Japan's (and to some extent even the US's) greater proximity to dynamic East Asian exporters. The actual import picture is fully consistent with the hypothesis that the MFA does not actually significantly restrict textiles and clothing imports from developing countries. However, the MFA may well accelerate the re-orientation of industrial country textiles and clothing imports towards nascent exporters, and, in the EC, towards exporters that benefit from special preferences. Thus Morocco, Tunisia and Turkey, and also Bangladesh and Mauritius have higher shares even of developing country exports in the EC than in Switzerland or Japan.

35. Estimates of the costs of protection to developing countries greatly rely on auctions of export licenses in Hong-Kong markets. Hong-Kong remains the world's largest clothing exporter, but it has lost market shares, both worldwide and in industrial country markets. Its clothing exports to the EC, for instance, rose by 130 percent in value in the 1980s, to \$4.3 billion, while EC clothing imports from all sources rose by 183 percent, to \$27 billions.

36. Yet this loss of market shares need not have been caused by MFA restrictions. Hong-Kong, now a high income country with a fully employed labor force would in any case surely have moved

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<sup>19</sup> *Trade Policy review, SWITZERLAND, General Agreement on Tariffs and Trade, GENEVA December 1991, Vol I p. 165.*

<sup>20</sup> *Ibidem.*



towards higher value exports. A comparison with Italy is instructive. Italy, the world's second largest exporter of clothing, remains the largest intra-EC exporter. It is, of course, free of all internal duties and restraints. Relative to unrestricted Italy, Hong-Kong gained market shares in the EC. The value of Italy's clothing exports to the EC market was 75 percent higher than Hong-Kong's in 1980; only 67 percent higher in 1990.

37. In summary, the actual evolution of trade in manufactures and of the developing country shares in it provide no evidence of the impact of supposed discrimination against developing country exporters. On the contrary, this evidence is fully consistent with the hypothesis of substantially non-discriminatory, and sometimes even differentiated and more favorable, treatment of developing country exporters in a rapidly expanding world market.

38. How can this be reconciled with oft-told tales of rampant protectionism targeting developing countries? Part of the explanation is that these tales are wildly exaggerated, bear on very limited occurrences, or recount publicity rather than substance; there is sometimes less to protectionism than meets the eye. One may recall that certain EC restrictions were invoked 162 times against Hong-Kong's textiles and clothing exports over the past decade, and this sounds daunting. It sounds less daunting when one adds that 112 of these occurrences involved Ireland, hardly a major market, and, not incidentally, a country whose 1990 per capita income was 20 lower than Hong-Kong's<sup>21</sup>. Such losses as do actually occur may well be concentrated on a few dynamic exporters that take them in stride, often by accelerating their move to higher technology sectors.

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<sup>21</sup> World Bank Atlas-method. *WDI 1992*, op. cit.

## VI. THE DETERMINANTS OF IMPORTS: GROWTH AND EXCHANGE RATES

39. Trade patterns differed markedly in the two halves of the 1980s. Both their actual evolution and the numbers reflecting it were much influenced by the decade's wild gyrations in exchange rates. Following its depreciation relative to European currencies after 1970, the dollar rose sharply from 1980 to 1985. The Yen tended to move with the dollar during this period, first appreciating less than European currencies (and more reluctantly) from 1970 to 1980, then depreciating less from 1980 to 1985. After 1980, the real exchange rates of most developing countries (not shown in Table 4) also depreciated quite sharply relative to the US dollar and the Yen; relative to the DM, there was modest depreciation for some currencies (Latin America), appreciation for others, notably the dollar and Yen-linked currencies of Asia.

40. In the late 1980s the DM-dollar relationship returned to roughly its 1980 level. This time the Yen appreciated with the European currencies. Korea and Taiwan's exchange rates moved up relative to the dollar, though down relative to the Yen and DM. Most other developing countries' real exchange rates followed the dollar, and some (notably China's and India's) even continued to depreciate relative to it.

TABLE 3.

### NOMINAL AND REAL EXCHANGE RATES.

	1970	1975	1980	1985	1990
DM per \$	3.66	2.46	1.82	2.94	1.62
100 YEN per \$	3.60	2.97	2.27	2.39	1.45
YEN per DM	98.4	120.7	124.7	81.3	89.38

### REAL EFFECTIVE EXCHANGE RATES RELATIVE TO THE DOLLAR. (1985=1.00)<sup>22</sup>

	1980	1985	1990
DM	1.459	1.000	1.575
YEN	1.331	1.000	1.507
DM/YEN	1.096	1.000	1.045

41. The appreciation of the dollar during the early 1980s caused the dollar value of EC GDP production to fall by 19 percent from 1980 to 1985, and that of manufactur-

<sup>22</sup> Source: *International financial Statistics Yearbook 1992*, International Monetary Fund, Washington DC, p. 99. Based on relative wholesale prices; recalculated to be expressed in ratio of US Dollar and DM.

ing production to fall by 28 percent. Manufactures imports also fell, but by only 4.5% in dollar value. This sharp increase in the relative price of imports contributed to raising their ratio to manufacturing production from 15.6 to 20.8%. In domestic currency (using the DM for all European countries), the relationship is more impressive: the DM value of EC manufacturing production rose by 16 percent, that of manufactures imports by 55 percent. Meanwhile, US manufactures imports rose particularly sharply during the first half of the decade, as fiscal and payments deficits exploded and the dollar became increasingly overvalued. The dollar value of manufactures imports more than doubled in five years, while manufacturing production rose by just over 23 percent. In Japan, the dollar value of manufacturing production, GDP and manufactures imports all rose by about 30 percent.

42. During the second half of the 1980s, the dollar declined and US import growth slowed down - though its 50 percent increase over five years was still much higher than the increase in GDP (36 percent) or manufacturing production (15 percent). The ratio of manufactures imports to GDP and to manufacturing production continued to rise, no doubt reflecting both relative price changes and continued volume increases.

43. In the EC, the mechanical effects of dollar depreciation, combined with modest recovery from the earlier recession, caused the dollar values of GDP and manufacturing production to rise by 137 and 122 percent respectively from 1985 to 1990. The dollar value of manufactures imports rose even faster than in the US during its period of currency appreciation, by 167 percent. In local currency (DM), imports of manufactures rose by 46 percent, and manufacturing production by 22 percent. In Japan, where earlier manufactures imports had risen less fast than production and incomes, from 1985 to 1990 they increased by over 90 percent in YEN terms, while GDP and manufacturing production both increased by about 30 percent. In dollar value, manufactures imports trebled over these five years, when currency appreciation (i. e. cheap imports) and booming domestic demand may have been helped by deliberate Government stimulus to imports.

44. Currency appreciation is an effective tool for stimulating imports, but its mechanical valuation effects partly hide its impact to the analyst. The real phenomenon of the rising purchasing power of GDP and incomes draws in imports; but the valuation effect of currency appreciation tends to reduce their ratio to GDP. The import surges consecutive to the appreciation of EC and Japanese currencies after 1985 were partly disguised by the rise in the dollar value of their GDPs and manufacturing productions. Obviously, the import surge was quite visible to the domestic manufacturers who tried to compete.

TABLE 4.  
PURCHASING POWER PARITIES (PPP), PRICE LEVELS,  
AND THE RELATIONSHIP OF IMPORTS TO GDP AT INTERNATIONAL PRICES.

RELATIVE PRICES (US = 100)						
	1980		1985		1990	
Japan	106		93		135	
U. S.	100.		100		100	
EC	116		78		118	
"REAL" GDPs						
BILLIONS "INTERNATIONAL DOLLARS" AND [NOMINAL DOLLARS] <sup>23</sup>						
Japan	999	[1040]	1432	[1343]	2180	[2943]
US	2587	[2587]	3962	[3962]	5392	[5392]
EC	2781	[3125]	3259	[2532]	5081	[6012]
RATIOS OF ALL IMPORTS TO "REAL" GDP AND [NOMINAL GDP]						
Japan	0.141	[0.135]	0.090	[0.096]	0.108	[0.080]
US	0.098	[0.098]	0.091	[0.091]	0.096	[0.096]
EC	0.140	[0.125]	0.096	[0.124]	0.117	[0.099]
RATIOS OF MANUFACTURES IMPORTS TO "REAL" GDP AND [NOMINAL GDP]						
Japan	0.025	[0.024]	0.022	[0.024]	0.046	[0.034]
U. S.	0.048	[0.048]	0.063	[0.063]	0.070	[0.070]
EC	0.052	[0.047]	0.043	[0.055]	0.074	[0.062]

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<sup>23</sup> PPP data for 1980 and 1985 are from *WORLD COMPARISONS OF PURCHASING POWER AND REAL PRODUCT FOR 1980*, Phase IV of the International Comparison Project, Eurostat and United Nations, New York, 1986 and 1989. Data for individual countries were aggregated to form EC GDP, which was then divided by the nominal GDP aggregate in the same source to obtain the EC-wide price ratio. The average price ratio so obtained, and that directly obtained for Japan, was then applied to the GDP data used elsewhere in this report (which are slightly different from those of the ICP project) to obtain GDPs in "international" dollars for 1980. Price and "real" GDP data for 1990 are preliminary results of the OECD international comparisons project.

45. "International dollars" are calculated by the International Comparison Project (ICP), and purportedly reflect equal purchasing power parities (PPP) by correcting for price differences, somewhat like "constant dollars" correct for price changes over time. Conventionally, the US is taken as numéraire (like a given year is chosen as base year for constant dollars). Table 5 above shows the relative price changes brought about by the currency movements of the 1980s.<sup>24</sup>

46. While recognizing the serious practical and theoretical difficulties related to "international" dollars and their calculation, the behavior of imports relative to GDP's expressed in "international" dollars is significant. Deliberately or otherwise raising the foreign exchange price of domestic product through currency appreciation tends to draw in imports but mechanically depresses their relationship to nominal GDP (and vice versa). The use of "international" dollars tears away this exchange rate veil.

47. From 1980 to 1985, the fall in relative domestic prices in Europe and Japan mechanically raised the ratio of imports to nominal GDP; but the corresponding rise in relative import prices depressed real import demand, and thus accelerated the decline in demand for primary commodity imports and temporarily countered the secular rise in the ratio of Europe's manufactures imports to its GDP.

48. As a result, while overall imports' share in GDP remained almost stable in the US (where it was boosted both by dollar appreciation and by expansionary financial policies), the share of total imports and of manufactures imports in "real" GDP sharply fell both in Europe and in Japan.

49. Conversely, over the next period of currency appreciation, import rise was amplified; the relative cheapness of manufactures imports helped raise demand for them, almost doubling their ratio to "real" GDP in Japan, raising it by half in the EC. Meanwhile, the rise in the price of imports slowed down their penetration into the US; the ratio of manufactures imports to GDP, which had risen from .048 to .063 points in the first half of the decade rose to just .070 in the second half. By the end of a decade of see-sawing exchange rates and fluctuating but rising import ratios, both total and manufactures imports were somewhat higher in the EC than in the US in relation to "real" GDP. On both accounts, the correction reduces, but does not eliminate Japan's differences, all the more remarkable (as noted earlier) as Japan's much smaller economy would, *ceteris paribus*, need more imports.

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<sup>24</sup> Some may have expected greater price divergences between the US and the EC, but in 1980 several EC member countries actually had lower price levels than the US (Ireland, Italy, Greece, Portugal, Spain).

## VII. IMPORTS, EFFICIENCY AND DE-INDUSTRIALIZATION

50. Thus at one time or another, during the early or the latter part of the decade, manufactures imports surged in the three large economies. Meanwhile, the growth of industrial production generally slowed down: among major industrial countries, only Germany's and Japan's industrial production increased as much as in the 1970s: the index of industrial production (relating to the "volume" of production) rose by 19% in Germany, as against 18% in the 1980s; by 49% in Japan, as against the previous decade's 50%<sup>25</sup>. Elsewhere, production lagged, imports surged and (with the exceptions again of Japan and Germany, and also of Italy) manufacturing trade balances deteriorated.

51. When the share of imports soars, and import and export increases are also considerable relative to the overall domestic market size, there must be at least a suspicion of considerable competitive strains on domestic manufacturing, and of substantial restructuring. In some cases, this was partially disguised, for a time, by surges in overall domestic demand, causing domestic production to rise even when its market share was falling. Such may have been the case in the United Kingdom during the early 1980s, when its economy was fuelled by Thatcherian reforms and rising oil revenues, and in the United States during the same period. It also happened in Germany in the late 1980s and early 1990s, when imports rose under the impact of the rising budget deficit associated with reunification. Even when attenuated by currency appreciation, as has now happened in Germany and earlier in the US, the salve provided by domestic demand can be quite soothing. However, it is rarely sustainable when it is accompanied by growing balance of payment deficits.

52. The relationships of import penetration, export growth and industrial restructuring are not the topic of this paper. They are undoubtedly complex. There is considerable evidence, notably rising unemployment despite stagnant or falling real manufacturing wages, that in few industrial countries was the relationship a happy one in the 1980s. One may then wonder if freer trade always speedily leads to greater domestic welfare.

53. The classical economists' argument, in the simplest terms, goes thus: if an industry cannot compete, if it has no *comparative advantage*, then the factors of production employed in it can be more productively and more remuneratively employed in other industries. The national economy will gain from such changes imposed by competition; and so will the factors of production, including labor, once it overcomes the psychic cost of moving from one sector (or location) to another.

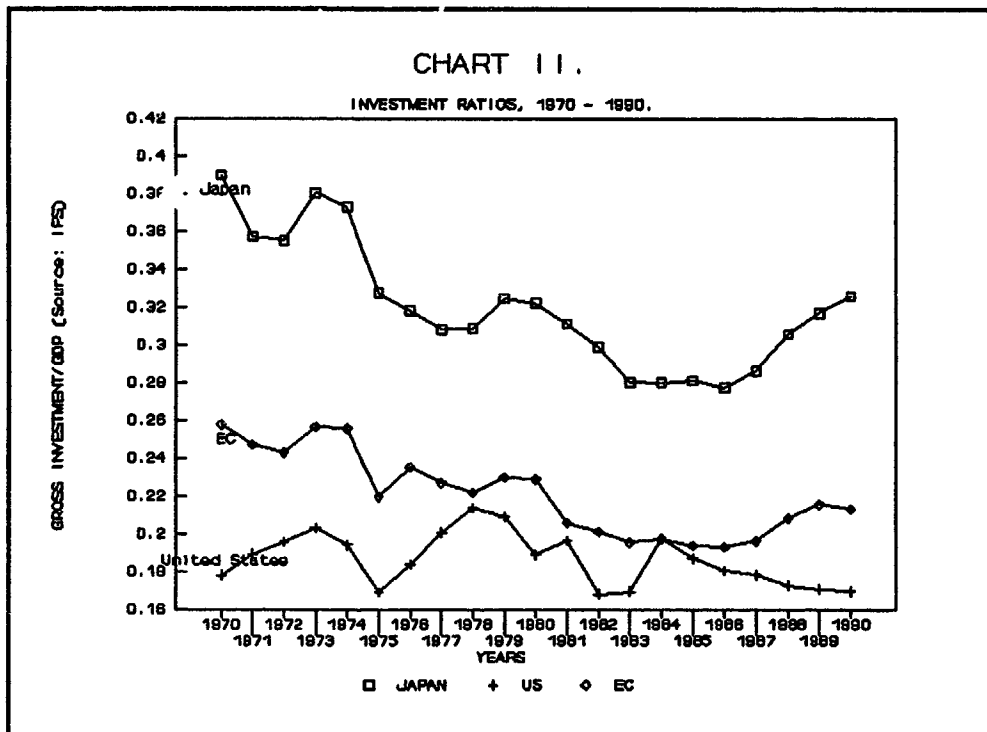
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<sup>25</sup> SOURCE: International Financial Statistics (IFS), Yearbook 1992

54. There is no gainsaying this argument - in the long run: the economist's long run defined as the time it takes for factors of production to be redeployed. Much of the capital stock can only be redeployed as it is renewed. This is self-evident for specialized machinery. It is also the case for much infrastructure: even if roads can carry all sorts of traffic and houses provide dwellings to all sorts of people, they need to be in the right places.

55. Investment levels, through which capital is renewed and expanded, were particularly low in the 1980s, as is well illustrated by Chart 2.<sup>26</sup> Data on sectoral shares are more difficult to come by, but, like the share of manufacturing production in GDP, the share of manufacturing investment in GDP seems in general also to have fallen within the lower total, in keeping with the supposed *services revolution* of the 1980s.

**Figure 2 INDUSTRIAL COUNTRIES: SHARES OF INVESTMENT IN GDP.**



56. Of the lower manufacturing investment, more had to go to meet the double challenge of new competition from imports, and new technologies. Much investment aimed at reducing the costs of producing the same volume of products, i.e. producing

<sup>26</sup> Source: *World Tables and International Financial Statistics*, op. cit.

them with less labor, and often also with less energy and other raw materials. The new capital available to complement resources freed by modernization and those rendered redundant by competition has been scarce indeed.

57. Why was investment so low? Protectionism, particularly heightened protectionism, cannot have had much to do with it, given increased import elasticities, rising imports and deepened import penetration. Other constraints must have operated. Some may be important - including continued domestic distortions and inefficiencies - but there is no reason to believe their influence to have been any stronger than in earlier decades.

58. Three factors may well have played particularly strong roles: macroeconomic policy failures; exchange rate instability; and trade competition itself.

59. Its newly anti-inflationary stance and resulting high real interest rates are the aspects of macro-economic policy that have drawn most comments; but other features also distinguished the 1980s from earlier decades. Without examining them in any depth here (for which this paper is not the proper place) one can note that business confidence in the continued ability of governments to ensure steady growth has fallen to its lowest levels since the Great Depression. The expectation of periods of recession or slow growth depresses expected rates of return just when interest rates are at their highest.

60. Exchange rate instability and the related uncertainty play a part in this; they also directly depress the expected value of returns to investment. Exchange rate fluctuations do not immediately fully translate into price changes: at the 1985 height of the dollar, European passenger cars were priced twice as high in North America as in their home markets. But whether translated into lower prices, higher profits or the ability to bear higher marketing costs, competitive positions are radically altered in ways that industrialists can neither influence, nor forecast, nor shield themselves from. Overall, the risks of new investment are heightened; expected rates of return are depressed.

61. About a fourth of the EC's external trade in manufactures is with North America, and about as much again with more or less dollar-linked Asia. Exchange rate changes directly affect the profitability of exports to these markets. They also affect the profitability of a more or less broad range of import-competing industries. Even in third countries, with which bilateral exchange rates may be stable, for instance EFTA countries and Japan, the fluctuating competitiveness of dollar-based competitors represent additional risks.

62. These risks are less sharply perceived by US manufacturers - witness the quasi-absence of exchange rate news from American media, in contrast to the large space



devoted to them in Europe and Japan. They may therefore have less influence on US investment decisions. The US may actually be spared some of the macroeconomic instability and terms of trade fluctuations linked to exchange rate movements, because the short run price of its main primary import, petroleum, is fixed in dollars. US manufactures are, however, also much affected, mostly through imports from Western Europe and Japan (equivalent to about 20 percent of US manufacturing production).

63. Pressure on profits has been amplified by import competition, from new and low-cost suppliers. Industries and firms able to re-orient themselves towards export markets were able to preserve or enhance economies of scale. Often, however, both when attacking difficult export markets and defending besieged home markets, profit margins were compressed. Lean profits generate effective pressures for modernization, better use of labor and capital, and improved management; but they also reduce firms' ability to generate or attract the capital needed for effective improvements, particularly when borrowed capital is expensive, and when investment prospects in foreign manufacturing seem more promising. Some of the capital that did not find its way into domestic manufacturing was invested in newly industrializing countries; some, attracted by high interest rates, went to finance rising domestic budget deficits and financial speculation; some did not materialize, as manufacturing profits were depressed and household savings rates fell.

64. Labor must also be redeployed if it is to contribute to new comparative advantages. Its capacity to do so is limited by the scarcity of new investment. Its willingness to adapt is greatest when opportunities for employment are plentiful, in growing industries offering attractive wages, in places with good living conditions. The bulk of Europe's farmers thus shifted to industry and services between 1945 and 1975, with little pain, voluntarily, often eagerly: there was ample demand even for its limited skills, with better earnings and living conditions. Similarly did textile workers move to electrical industries in eager droves. But what alternative do a fifty year old farmer, assembly line worker or coal miner have today?

65. Their opportunities might improve with better skills, but the stringency of budgets has limited training efforts everywhere. In any case, the large numbers of trained unemployed (from youngish retirees to workers with only slightly mis-matched skills) throws doubt on the link between skills and jobs and reduces the incentive to incur the effort and costs of training.

66. The criticism of protection often includes the argument that the gain to consumers from cheaper imports exceeds the costs of fully compensating the unemployed for their lost incomes. Thus *Paretian welfare* is raised by trade liberalization. Indeed, most industrial countries reduce the numbers of formally unemployed through early retirement programs, and also informally, by leaving little hope of new jobs to those

above fifty.

67. But trade economists should not disregard the evolution of the economics and politics of taxation, fiscality and public choice. Taxation and other compulsory contributions to unemployment benefits, through transfer payments, are not costless. In the 1980s, body politics throughout the industrial world have behaved as if the marginal costs of levying taxes were enormous. Fiscal economists have advanced the theoretical analysis of these costs, and while their opinions are divided, a substantial body of professional opinion now holds that the economic costs of marginal taxes are indeed high. Whether the constraints on compulsory levies are real or imagined, raising unemployment compensation or pensions therefore has real welfare costs, which in the short run may well outweigh efficiency and other welfare gains from additional imports. Such calculations need not be taken any more seriously than those of some trade models; but as long as politics favor lower taxes, the constraints are real, and transfer payments to the unemployed carry true economic costs.

68. None of this should be construed as arguments in favor of protectionism. Permanently sheltering domestic producers from imports is clearly not the road to greater efficiency and resumed growth. Even the temporary use of protection is risky: every example of a firm using protection-padded profits to gear up for competition can be matched by at least one where protection prolonged the agony. But import competition alone may not lead to appropriate restructuring either, just to a withering of the industrial structure, depletion of skills and of capital; and ultimately to forms of protectionism which may be no less unavoidable for being, by themselves, unhelpful.

## CONCLUSION

69. Protectionism continued to dominate world agricultural trade in the 1980s, and to dampen its expansion. Outside this limited area, however, far from being a decade of rampant protectionism, the 1980s saw an unprecedented surge in the growth rate and market shares of manufactures imports into the industrial countries. Free trade may have remained an ideal remote from reality; but no more remote than the reality of monopolistic, friction-prone, ignorant domestic markets from the ideal perfect competition. If a simple paradigm is sought, then outside of agriculture that of free trade fits reality and serves policy-makers well. Many developing countries have succeeded in accelerating their development through strategies based on manufactures exports to industrial countries. These markets have remained wide open to them, their supposed protectionism no more than a minor frictional cost. Those developing countries that have not done well in manufactures exports should look to their own circumstances and policies for explanations of their lack of success, not to imagined protectionism in industrial country markets.

70. Yet in the industrial countries, this period of free trade coincided with lower growth rates and heightened *malaise*. The value of the paradigm is not to fit reality perfectly - no simple paradigm can - but to indicate that the way to improving industrial country performance does not lie in removing the remaining imperfections in the model. Ever freer trade should be sought, would be useful; even more important, the gains of the past must be consolidated and protectionist threats credibly countered; but whatever further trade liberalization is feasible will not, by itself, do much to bring about faster growth.

71. Worse: unless faster growth is brought about, and it must be by other means, the conditions for free trade may not be preserved. The first duty of the industrial countries, to themselves and to the world, is to re-establish the conditions of faster growth; the first duty of economists is to find the policies that will do so. The solution does not lie in further reduction of the remaining barriers to free trade. But unless a solution is found, and put into practice, trade barriers may well rise in reaction to perceived and actual difficulties, and, by rising, aggravate them.

ANNEX TABLE I - I

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
EUROPEAN COMMUNITY.

(Billion dollars)

Year	U. S.		Japan		developing countries		EFTA		WORLD excluding intra-EC		intra-EC		
	exp	imp	exp	imp	exp	imp	exp	imp	exp	imp	exp	imp	
Food	1980	2.9	12.4	0.9	0.2	14.0	25.5	4.6	3.3	26.4	44.9	49.6	49.5
	1985	4.4	6.4	1.1	0.2	11.4	22.6	3.8	2.9	24.0	35.1	45.8	46.7
	1989	4.9	6.8	2.6	0.2	15.7	28.9	6.8	5.5	34.6	45.6	84.9	83.1
	1990	5.6	7.4	2.8	0.2	16.9	32.0	8.6	6.7	39.1	51.4	100.8	99.9
Raw Materials	1980	0.3	3.1	0.1	0.2	1.2	9.6	1.6	6.6	3.9	23.4	9.1	8.9
	1985	0.5	2.2	0.2	0.1	1.2	7.3	1.5	4.2	4.2	16.3	8.5	8.7
	1989	0.7	3.6	0.4	0.2	1.8	10.5	2.7	7.9	6.4	27.2	14.9	15.1
	1990	0.6	3.9	0.3	0.2	1.9	10.4	2.9	8.3	6.7	28.1	16.3	16.8
Ores and Other Minerals	1980	0.3	2.8	0.1	0.0	0.4	7.6	0.8	1.5	2.0	14.2	6.1	6.5
	1985	0.2	1.3	0.1	0.0	0.4	5.8	0.9	1.1	1.8	10.2	4.5	5.1
Minerals	1989	0.2	2.1	0.2	0.0	0.9	8.0	1.4	1.9	3.2	14.7	8.3	9.1
	1990	0.3	1.7	0.2	0.0	0.9	7.9	1.4	2.0	3.1	14.3	8.3	9.3
Fuels	1980	2.4	2.9	0.0	0.0	4.1	113.2	6.7	8.7	18.0	139.7	37.3	36.2
	1985	5.1	3.1	0.1	0.0	2.1	64.9	5.9	12.4	17.3	97.7	40.4	39.4
	1989	3.8	3.1	0.2	0.0	1.9	44.9	4.1	11.1	13.5	71.3	24.3	23.7
	1990	4.8	3.8	0.1	0.0	2.4	58.6	5.8	14.9	17.7	92.5	31.9	32.1
Non-Ferrous Metals	1980	1.0	2.4	0.2	0.3	1.4	6.2	3.8	3.1	7.0	13.5	11.7	11.4
	1985	1.1	0.6	0.2	0.1	1.3	3.3	1.5	2.3	4.5	7.4	7.5	7.6
	1989	1.3	0.9	0.5	0.1	2.1	6.6	3.0	5.5	7.4	16.0	16.3	16.7
	1990	1.4	1.1	0.5	0.2	2.1	6.7	3.3	5.8	7.7	16.3	16.9	17.4
Total Primary Products	1980	6.9	23.6	1.3	0.7	21.1	162.1	17.5	23.1	57.2	235.7	113.8	112.5
	1985	11.2	13.5	1.6	0.4	16.5	104.0	13.5	22.9	51.8	166.6	106.8	107.5
Products	1989	10.8	16.5	3.9	0.6	22.4	98.8	18.0	31.9	65.1	174.7	148.6	147.8
	1990	12.6	17.9	4.0	0.7	24.1	115.6	22.0	37.8	74.3	202.7	174.2	175.5
Iron and Steel	1980	2.0	0.5	0.1	0.7	7.3	1.3	4.0	3.3	16.9	7.0	19.2	19.8
	1985	2.9	0.2	0.1	0.2	6.2	1.0	3.0	2.9	15.8	5.2	14.5	14.7
	1989	3.1	0.5	0.2	0.3	7.1	2.4	5.4	6.1	18.7	11.0	29.7	30.0
	1990	3.1	0.4	0.2	0.4	7.2	2.1	5.9	6.7	18.3	11.7	33.8	33.9
Chemicals	1980	3.4	6.2	1.5	0.8	16.4	2.6	9.5	5.2	35.7	17.2	43.0	43.6
	1985	5.8	5.8	1.9	1.0	16.0	3.0	8.3	5.7	37.2	17.7	43.6	44.4
	1989	8.6	9.5	4.0	2.5	21.8	5.5	16.3	12.5	58.0	33.2	81.8	85.7
	1990	9.4	10.7	4.5	2.9	24.7	6.1	19.4	15.3	65.2	38.6	97.5	102.6
Other Semi-Manufactures	1980	3.8	3.3	0.5	1.1	14.6	4.8	11.4	14.5	32.4	26.6	36.4	36.1
	1985	5.1	2.1	0.6	0.8	11.8	3.8	6.2	10.3	25.8	18.9	29.2	29.2
	1989	7.8	4.1	1.9	1.8	17.2	10.4	13.2	21.8	43.1	41.2	61.8	61.7
	1990	8.0	5.0	2.2	2.1	18.6	12.1	16.1	26.5	48.2	49.3	76.5	76.7

ANNEX TABLE I - II  
 MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990. EUROPEAN  
 COMMUNITY.

(Billion dollars)

	Year	U. S.		Japan		developing countries		EFTA		WORLD excluding Intra-EC		Intra-EC	
		exp	imp	exp	imp	exp	imp	exp	imp	exp	imp	exp	imp
Machinery and Transport Equipment	1980	16.4	22.2	1.9	12.9	61.3	5.9	26.9	14.2	115.9	58.0	109.4	106.7
	1985	27.2	23.3	2.0	16.5	46.5	7.4	23.8	13.0	109.4	63.7	102.6	98.8
	1989	38.2	44.9	7.3	39.7	67.4	22.5	49.9	31.2	180.1	145.3	243.3	230.8
	1990	44.6	53.7	10.3	45.6	80.3	28.2	61.0	40.3	217.7	176.9	300.8	288.1
Power Generating Machinery	1980	1.2	1.7	0.1	0.1	3.7	0.4	0.9	0.5	6.2	3.0	3.1	3.2
	1985	2.3	2.4	0.1	0.1	2.8	0.6	0.8	0.5	6.3	3.9	3.1	3.0
	1989	3.6	4.6	0.1	0.4	3.8	0.9	1.6	1.2	9.6	7.6	6.7	6.4
	1990	5.4	5.8	0.2	0.4	4.9	0.9	1.9	1.5	13.1	9.4	7.8	7.8
Other Non-Electrical Machinery	1980	4.5	4.9	0.8	1.5	22.4	0.4	10.0	5.9	43.1	13.6	30.1	29.8
	1985	6.7	3.9	0.8	1.9	17.2	0.5	7.6	5.0	37.1	12.2	23.8	23.6
	1989	10.9	6.9	2.1	5.5	24.7	1.8	16.3	11.9	62.2	27.6	56.8	56.2
	1990	12.2	7.8	2.8	6.3	30.6	2.3	20.5	15.6	75.6	34.0	70.7	70.8
Office and Telecommunications Equipment	1980	1.5	7.3	0.3	4.9	5.8	2.7	3.3	2.0	11.3	17.2	16.4	15.2
	1985	3.1	10.0	0.2	7.6	5.8	4.0	4.3	2.3	14.2	24.6	21.2	19.4
	1989	4.9	17.3	0.5	17.4	7.9	13.1	8.2	5.0	23.5	54.7	46.1	42.2
	1990	5.2	18.9	0.6	19.7	9.6	16.8	9.5	6.4	27.7	63.9	55.3	52.0
Electrical Machinery and Apparatus	1980	0.8	2.1	0.2	0.7	6.6	0.5	3.5	2.0	11.9	5.7	11.7	11.9
	1985	1.7	2.5	0.2	1.3	5.1	0.7	3.0	1.8	11.1	6.7	11.1	10.9
	1989	3.0	4.0	0.6	3.3	7.0	2.7	6.5	4.4	19.2	15.2	24.6	24.3
	1990	3.3	4.6	0.9	3.7	8.4	3.4	8.0	5.7	23.7	18.4	30.7	30.9
Automotive Products	1980	6.2	0.9	0.4	3.9	13.1	0.4	7.0	2.4	27.5	8.2	37.6	36.5
	1985	9.8	0.6	0.6	4.4	8.8	0.7	6.3	2.7	27.0	9.3	34.6	34.1
	1989	10.5	1.7	3.5	10.9	11.9	1.7	13.4	6.9	41.1	22.6	87.6	82.7
	1990	12.3	2.2	5.2	12.6	13.0	1.7	16.3	8.5	49.0	26.7	109.4	103.7

Source: GATT data files. "Developing Countries" are the sum of Africa, Latin America, Middle East and Asia minus Japan.

ANNEX TABLE I - III.

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
EUROPEAN COMMUNITY.

(Billion dollars)

Year	U. S.		Japan		developing countries		EFTA		WORLD excluding Intra-EC		Intra-EC		
Other	1980	2.2	4.8	0.2	1.9	8.5	1.5	2.0	1.3	15.2	11.1	9.4	9.2
Transport	1985	3.5	3.9	0.2	1.1	5.8	0.8	1.7	0.7	12.5	7.1	8.7	7.9
Equipment	1989	5.3	10.4	0.4	2.3	11.0	2.3	3.8	1.8	22.8	17.7	21.3	19.0
	1990	6.1	14.4	0.5	2.9	12.7	3.0	4.6	2.5	26.7	24.4	26.6	22.8
Textiles	1980	0.7	1.3	0.4	0.4	3.5	3.6	3.4	2.1	9.4	8.0	16.0	15.7
	1985	1.4	0.5	0.4	0.4	2.9	2.8	2.6	2.1	8.9	6.5	14.2	13.9
	1989	1.8	1.1	1.0	0.8	4.4	5.4	5.1	4.1	14.0	12.1	25.1	25.2
	1990	1.9	1.3	1.2	0.9	5.1	6.7	6.2	5.0	16.4	14.8	30.8	31.2
Clothing	1980	0.4	0.4	0.3	0.1	1.3	6.2	2.7	1.7	4.9	9.6	10.5	10.9
	1985	1.4	0.1	0.3	0.1	1.0	5.3	3.0	1.4	6.2	8.3	9.6	9.3
	1989	1.9	0.3	1.2	0.2	1.6	13.5	5.6	5.0	11.0	20.5	18.7	17.9
	1990	1.9	0.5	1.6	0.2	2.0	17.7	7.1	6.6	13.3	27.1	24.6	23.6
Other Consumer	1980	4.3	5.7	0.9	2.9	10.0	4.8	8.5	5.4	25.4	20.2	30.2	30.3
Goods	1985	9.0	5.9	1.0	3.1	9.9	4.3	8.1	4.8	30.4	19.6	27.1	26.8
	1989	12.1	11.6	3.4	6.5	13.1	13.8	17.5	11.1	50.6	45.4	58.6	58.0
	1990	13.3	13.6	4.4	7.6	15.2	16.8	21.7	13.9	59.6	55.0	74.2	73.7
Total Manufactures	1980	30.9	39.6	5.3	19.0	114.5	29.2	66.5	46.4	240.7	146.5	264.7	263.0
	1985	52.8	37.9	6.3	22.2	94.4	27.5	54.9	40.2	233.8	139.9	240.8	237.1
	1989	73.3	71.5	19.0	51.7	132.5	73.5	113.0	91.9	375.5	308.8	518.9	509.2
	1990	82.2	85.2	24.3	59.7	153.2	89.6	137.3	114.2	438.7	373.4	638.1	629.6
Total a	1980	38.6	66.0	6.7	19.7	138.2	195.3	86.3	73.0	305.0	393.9	384.6	380.1
	1985	65.1	53.1	8.0	22.7	113.7	133.9	69.8	66.4	292.2	314.9	352.8	349.3
	1989	85.1	91.2	23.1	52.6	158.6	176.8	133.5	128.1	456.0	499.3	674.4	667.9
	1990	95.9	105.8	28.5	60.7	181.1	210.1	162.3	156.8	530.6	593.6	820.9	818.3

a Including commodities not classified according to kind.

Source: GATT data files. "Developing Countries" are the sum of Africa, Latin America, Middle East and Asia minus Japan.

ANNEX TABLE II - I

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
UNITED STATES

(Billion dollars)

Year	EC		Japan		developing countries		World		Canada		
	exp	imp	exp	imp	exp	imp	exp	imp	exp	imp	
Food	1980	10.98	3.28	5.74	0.32	15.81	14.19	39.77	20.60	2.45	1.83
	1985	6.20	5.22	5.45	0.54	11.68	15.19	28.59	25.26	2.25	2.98
	1989	7.19	5.25	9.69	0.37	17.18	16.56	42.78	28.16	3.71	4.36
	1990	8.22	5.65	10.12	0.35	15.23	17.86	42.42	30.06	4.80	4.67
Raw Materials	1980	2.64	0.34	3.14	0.04	4.26	1.88	11.43	6.42	0.95	4.05
	1985	2.00	0.61	2.17	0.12	3.59	1.94	9.07	7.63	0.90	4.80
	1989	3.34	0.81	4.92	0.14	6.36	3.07	16.53	10.75	1.52	6.58
	1990	3.57	0.76	4.75	0.13	6.60	2.68	16.98	9.91	1.65	6.20
Ores and Other Minerals	1980	2.36	0.29	1.21	0.02	1.25	3.13	6.39	4.90	1.29	1.40
	1985	1.06	0.27	0.83	0.03	1.09	2.24	3.99	3.62	0.83	1.01
	1989	1.55	0.37	1.48	0.05	2.05	3.37	6.98	5.58	1.29	1.63
	1990	1.20	0.37	1.33	0.04	2.19	3.50	6.40	5.73	1.20	1.70
Fuels	1980	2.42	2.59	1.73	0.06	1.63	70.35	8.47	82.25	2.33	6.98
	1985	2.85	5.81	1.81	0.07	3.12	37.83	10.06	55.75	1.60	10.03
	1989	2.74	4.02	1.51	0.16	3.60	41.85	9.95	56.05	1.72	8.05
	1990	3.78	4.87	1.48	0.10	4.45	51.22	12.32	68.74	2.17	10.35
Non-Ferrous Metals	1980	1.91	0.87	0.86	0.49	1.04	3.34	5.11	7.71	0.66	2.45
	1985	0.46	1.34	0.42	0.54	0.55	2.60	2.04	7.13	0.55	2.14
	1989	0.73	1.37	1.46	0.40	1.41	3.52	5.04	11.04	1.35	4.78
	1990	0.78	1.37	1.58	0.48	1.44	3.23	5.29	9.99	1.42	3.97
Total Primary Products	1980	20.32	7.37	12.68	0.93	23.96	92.91	71.18	121.88	7.69	16.71
	1985	12.57	13.25	10.68	1.29	20.03	59.82	53.75	99.39	6.14	20.95
	1989	15.55	11.82	19.06	1.12	30.58	68.38	81.28	111.63	9.60	25.41
	1990	17.55	13.02	19.26	1.10	29.91	78.50	83.42	124.43	11.24	26.89
Iron and Steel	1980	0.46	2.15	0.05	3.28	2.02	1.36	3.24	8.15	0.64	1.04
	1985	0.16	3.37	0.05	3.35	0.57	2.38	1.44	11.19	0.60	1.22
	1989	0.36	3.34	0.27	2.68	1.90	2.84	3.69	11.38	0.97	1.68
	1990	0.37	3.13	0.21	2.34	1.38	2.87	3.49	10.68	1.44	1.55
Chemicals	1980	5.54	3.57	2.00	0.75	10.14	1.24	21.13	8.96	2.39	2.60
	1985	5.81	6.49	2.88	1.48	8.95	2.78	21.98	15.10	3.05	2.76
	1989	9.94	9.56	4.72	2.50	16.41	3.90	37.87	21.77	5.22	4.09
	1990	10.68	10.15	4.62	2.51	16.50	4.43	39.47	23.66	6.14	4.59
Other Semi-Manufactures	1980	2.56	3.54	0.61	2.18	5.57	4.67	11.59	15.80	2.34	4.74
	1985	1.64	5.68	0.72	3.60	3.80	8.14	9.44	26.22	2.87	7.32
	1989	3.29	7.76	1.73	4.14	6.87	12.34	17.87	36.22	5.41	10.16
	1990	3.78	7.85	1.94	3.90	7.56	11.84	19.88	35.74	6.01	10.31
Machinery and Transport Equipment	1980	20.13	16.28	3.88	22.25	39.03	10.12	88.72	63.84	21.05	12.63
	1985	21.43	28.11	5.88	54.85	37.55	24.61	101.95	141.84	32.12	29.43
	1989	42.74	37.07	12.33	75.93	59.92	52.32	165.95	210.81	43.88	39.29
	1990	47.86	40.15	15.30	71.61	66.13	54.06	182.60	213.26	45.29	41.18

ANNEX TABLE II -II

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
UNITED STATES

(Billion dollars)

	Year	EC		Japan		developing countries		World		Canada	
		exp	imp	exp	imp	exp	imp	exp	imp	exp	imp
Power Generating Machinery	1980	1.46	0.99	0.20	0.17	2.57	0.14	5.00	1.90	0.53	0.43
	1985	1.89	2.27	0.37	0.38	2.07	0.42	5.41	3.86	0.72	0.57
	1989	4.24	3.45	0.67	0.68	3.16	0.89	9.91	6.41	1.34	0.83
	1990	4.41	4.34	0.79	0.74	3.21	0.96	10.13	7.56	1.22	1.01
Other Non-Electrical Machinery	1980	4.56	4.84	0.90	2.26	13.61	0.81	25.92	11.01	5.75	1.90
	1985	3.70	7.49	1.03	5.85	9.31	2.21	19.90	19.59	4.98	2.39
	1989	6.73	11.63	1.98	10.05	14.31	4.81	32.61	32.37	8.32	3.57
	1990	7.45	12.61	2.07	9.06	14.94	4.68	34.62	32.17	8.69	3.40
Office and Telecommunication Equipment	1980	6.30	1.22	1.01	4.96	6.65	6.33	17.21	13.61	2.38	0.92
	1985	8.70	2.72	2.11	18.95	10.27	13.38	26.43	37.28	4.24	1.89
	1989	15.18	3.97	5.43	26.08	17.95	29.12	47.38	63.20	7.09	3.59
	1990	16.33	4.09	6.02	24.66	19.54	30.14	51.66	63.37	7.90	3.94
Electrical Machinery and Apparatus	1980	1.73	0.97	0.38	1.14	2.84	1.66	6.24	4.47	0.97	0.44
	1985	1.95	2.11	0.55	3.14	3.19	4.87	7.53	11.51	1.52	0.89
	1989	3.29	3.13	1.00	4.36	6.59	8.68	14.72	18.13	3.31	1.38
	1990	3.65	3.38	1.02	4.67	6.69	8.83	16.55	19.69	4.60	2.20
Automotive Products	1980	1.20	6.19	0.19	11.85	5.35	0.45	16.74	26.94	9.54	7.87
	1985	0.98	10.46	0.22	24.53	3.51	2.52	23.12	60.25	18.02	20.86
	1989	2.45	10.36	0.90	32.30	6.37	6.75	30.85	78.76	20.22	27.42
	1990	2.92	11.52	1.52	30.12	7.85	7.35	32.55	78.51	19.48	27.71

Source: GATT data files. "Developing Countries" are the sum of Africa, Latin America, Middle East and Asia minus Japan.



## ANNEX TABLE II - II

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
UNITED STATES

(Billion dollars)

Year	EC		Japan		developing countries		World		Canada		
	exp	imp	exp	imp	exp	imp	exp	imp	exp	imp	
Other Transport Equipment	1980	4.89	2.06	1.21	1.88	7.97	0.68	17.59	5.90	1.87	1.07
	1985	4.21	3.06	1.60	2.01	9.22	1.18	19.49	9.35	2.58	2.84
	1989	10.85	4.53	2.35	2.46	11.53	2.07	30.47	11.94	3.60	2.51
	1990	13.10	4.21	3.88	2.37	13.92	2.09	37.09	11.97	3.40	2.92
Textiles	1980	1.12	0.67	0.11	0.39	1.66	1.30	3.76	2.54	0.71	0.07
	1985	0.45	1.41	0.11	0.75	1.23	2.41	2.55	4.98	0.66	0.19
	1989	0.97	1.79	0.30	0.64	1.87	3.35	4.37	6.42	1.08	0.37
	1990	1.20	1.83	0.27	0.61	2.20	3.61	5.04	6.73	1.22	0.41
Clothing	1980	0.33	0.44	0.08	0.22	0.64	6.11	1.26	6.94	0.09	0.05
	1985	0.10	1.53	0.03	0.52	0.55	13.59	0.78	16.20	0.07	0.20
	1989	0.29	1.80	0.22	0.24	1.47	23.08	2.22	26.03	0.18	0.26
	1990	0.41	1.85	0.31	0.17	1.53	24.09	2.56	26.98	0.24	0.25
Other Consumer Goods	1980	5.77	4.50	1.18	2.64	5.10	8.06	16.20	18.00	2.86	1.55
	1985	4.85	9.22	1.58	5.68	5.20	15.92	16.11	35.34	3.34	2.73
	1989	9.73	11.72	5.04	8.73	9.21	27.93	32.74	53.86	6.29	3.28
	1990	11.20	12.52	5.72	9.39	10.40	30.04	37.44	57.79	7.45	3.33
Total Manufactures	1980	35.91	31.16	7.91	31.70	64.17	32.86	145.91	124.23	30.08	22.68
	1985	34.44	55.80	11.25	70.24	57.89	69.82	154.23	250.87	42.70	44.05
	1989	67.32	73.04	24.61	94.85	97.66	125.79	264.71	366.48	63.03	59.13
	1990	75.52	77.47	28.38	90.53	105.70	130.96	290.49	374.85	67.79	61.62
Total a	1980	58.71	39.94	20.79	32.96	91.80	127.42	225.64	253.00	40.34	42.00
	1985	48.26	71.57	22.19	72.28	81.96	132.56	219.16	361.40	53.23	69.42
	1989	86.58	88.75	44.56	97.11	134.46	198.11	363.63	493.01	78.26	89.44
	1990	98.02	95.45	48.58	93.07	143.14	213.88	392.87	516.72	82.96	93.69

a Including commodities not classified according to kind.

Source: GATT data files. "Developing Countries" are the sum of Africa, Latin America, Middle East and Asia minus Japan.

ANNEX TABLE III - I

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
JAPAN.

(Billion dollars)

Year	United State		EC		developing countries		World		
	exp	imp	exp	imp	exp	imp	exp	imp	
Food	1980	0.26	6.57	0.19	1.07	1.18	7.76	1.70	16.88
	1985	0.42	6.25	0.13	1.14	0.81	8.56	1.43	17.78
	1989	0.32	11.45	0.17	3.05	1.17	15.80	1.73	33.45
	1990	0.30	11.58	0.17	3.32	1.18	15.78	1.71	34.00
Raw Materials	1980	0.03	4.03	0.15	0.13	0.95	6.72	1.22	13.03
	1985	0.07	2.63	0.11	0.23	0.85	4.77	1.12	9.12
	1989	0.11	5.93	0.19	0.49	1.15	8.66	1.54	18.43
	1990	0.11	5.77	0.20	0.44	1.19	7.49	1.59	16.46
Ores and Other Minerals	1980	0.01	1.46	0.01	0.11	0.17	7.14	0.25	9.66
	1985	0.02	0.95	0.02	0.16	0.14	5.60	0.23	7.33
Fuels	1980	0.03	1.57	0.03	0.32	0.34	8.17	0.42	11.16
	1985	0.02	1.41	0.02	0.36	0.28	8.10	0.36	11.00
	1980	0.04	2.10	0.02	0.03	0.36	66.84	0.50	70.05
	1985	0.06	1.95	0.03	0.07	0.33	52.27	0.53	55.87
Non-Ferrous Metal	1989	0.15	1.79	0.03	0.19	0.72	39.84	0.96	43.84
	1990	0.10	1.73	0.02	0.17	1.11	53.40	1.27	57.45
	1980	0.53	0.80	0.23	0.20	0.94	2.68	1.79	4.36
	1985	0.52	0.50	0.04	0.24	0.78	2.64	1.38	3.95
Total Primary Products	1989	0.45	1.54	0.13	0.77	1.47	5.84	2.09	9.82
	1990	0.54	1.64	0.15	0.76	1.48	5.61	2.23	9.76
	1980	0.88	14.95	0.60	1.54	3.59	91.12	5.46	113.98
	1985	1.08	12.28	0.34	1.84	2.91	73.84	4.69	94.05
Iron and Steel	1989	1.06	22.28	0.53	4.81	4.86	78.33	6.74	116.70
	1990	1.07	22.13	0.56	5.05	5.25	90.38	7.16	128.68
	1980	2.72	0.06	0.62	0.05	10.57	0.66	15.45	0.89
	1985	2.82	0.04	0.24	0.08	9.29	1.18	13.57	1.48
Chemicals	1989	2.38	0.34	0.37	0.15	10.89	3.88	14.80	5.04
	1990	2.25	0.27	0.46	0.18	9.02	3.41	12.52	4.56
	1980	0.77	2.55	0.76	1.71	4.53	1.05	6.65	5.95
	1985	1.40	3.47	0.99	2.20	4.64	1.44	7.59	7.96
Other Semi-Manufactures	1989	2.54	5.34	2.38	4.95	8.86	3.08	14.69	15.07
	1990	2.48	5.38	2.84	5.17	9.64	2.85	15.78	15.22
	1980	1.83	0.78	0.94	0.59	5.51	1.05	8.84	2.71
	1985	2.83	0.86	0.71	0.64	4.86	1.10	8.98	2.96
Machinery and Transport Equipment	1989	4.00	1.96	1.58	2.06	6.52	5.30	12.94	10.19
	1990	3.75	2.24	1.81	2.34	7.24	5.63	13.68	11.08
	1980	22.01	4.25	11.53	2.27	34.94	1.17	75.87	8.39
	1985	50.84	6.50	15.18	2.04	41.61	1.49	119.20	10.57
Transport Equipment	1989	74.29	12.58	36.32	7.93	66.34	6.34	193.67	28.11
	1990	71.59	15.83	40.36	11.13	72.56	7.28	202.93	36.05

ANNEX TABLE III -II

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
JAPAN.

(Billion dollars)

	Year	United States		EC		developing countries		World	
		exp	imp	exp	imp	exp	imp	exp	imp
Power Generating	1980	0.17	0.35	0.07	0.09	1.38	0.05	1.68	0.52
	1985	0.33	0.77	0.11	0.07	1.58	0.10	2.14	0.96
Machinery	1989	0.83	1.08	0.34	0.15	1.81	0.31	3.11	1.59
	1990	0.82	1.14	0.35	0.23	2.18	0.36	3.49	1.79
Other Non-	1980	2.16	0.97	1.37	0.87	8.72	0.10	13.41	2.27
	1985	5.04	0.99	1.76	0.78	10.00	0.20	18.32	2.33
Electrical Machinery	1989	9.69	1.94	5.08	2.26	18.08	0.97	35.27	5.85
	1990	8.57	2.24	5.77	3.00	19.31	1.16	35.88	7.35
Office and	1980	5.05	1.27	4.73	0.30	7.03	0.58	17.98	2.21
	1985	16.94	2.10	7.05	0.20	10.65	0.74	36.73	3.11
Telecommunicatio Equipment	1989	26.33	5.72	16.13	0.62	19.10	3.46	65.00	9.93
	1990	24.87	6.58	17.71	0.73	20.63	3.80	67.01	11.26
Electrical	1980	0.99	0.50	0.64	0.21	4.15	0.20	6.13	0.98
	1985	2.57	0.86	1.21	0.24	4.96	0.27	9.27	1.45
Machinery and Apparatus	1989	4.08	1.46	2.90	0.64	7.97	1.15	15.81	3.39
	1990	4.34	1.66	3.23	0.83	8.31	1.38	16.78	4.08
Automotive	1980	11.16	0.18	3.21	0.41	10.00	0.04	26.10	0.65
	1985	23.01	0.13	3.82	0.59	11.07	0.06	41.14	0.81
Products	1989	31.08	0.66	10.15	3.78	15.34	0.20	63.07	4.83
	1990	30.73	0.94	10.97	5.80	17.28	0.26	66.23	7.32

Source: GATT data files. "Developing Countries" are the sum of Africa, Latin America, Middle East and Asia minus Japan.

ANNEX TABLE III - III.

MERCHANDISE TRADE BY REGIONS, MAJOR TRADING PARTNERS AND PRODUCT, 1980, 1985, 1989 AND 1990.  
JAPAN.

(Billion dollars)

	Year	United State		EC		developing countries		World	
		exp	imp	exp	imp	exp	imp	exp	imp
Other Transport	1980	2.49	0.98	1.55	0.37	3.65	0.19	10.57	1.76
	1985	2.94	1.65	1.24	0.16	3.37	0.10	11.59	1.92
Equipment	1989	2.27	1.72	1.72	0.47	4.04	0.24	11.41	2.50
	1990	2.26	3.26	2.32	0.54	4.84	0.31	13.54	4.26
Textiles	1980	0.38	0.13	0.34	0.41	4.00	1.04	5.12	1.66
	1985	0.63	0.13	0.38	0.40	3.64	1.30	4.94	1.90
	1989	0.63	0.32	0.63	1.06	4.00	2.81	5.53	4.35
	1990	0.59	0.32	0.75	1.21	4.24	2.38	5.86	4.11
Clothing	1980	0.21	0.09	0.07	0.32	0.15	1.10	0.49	1.54
	1985	0.44	0.04	0.06	0.29	0.15	1.66	0.71	2.01
	1989	0.22	0.23	0.12	1.36	0.17	7.30	0.57	8.97
	1990	0.15	0.32	0.15	1.78	0.21	6.54	0.57	8.74
Other Consumer	1980	2.52	1.48	2.85	1.07	4.11	1.02	10.32	3.89
	1985	5.32	1.89	2.98	1.19	5.14	1.45	14.46	4.87
Goods	1989	7.25	4.58	5.57	5.13	8.03	5.64	22.23	16.63
	1990	7.42	5.20	6.11	7.38	8.77	5.94	23.80	20.21
Total Manufacture	1980	30.42	9.35	17.16	6.42	63.81	7.11	122.73	25.03
	1985	64.29	12.94	20.53	6.83	69.32	9.62	169.44	31.75
	1989	91.30	25.35	46.99	22.64	104.80	34.36	264.43	88.36
	1990	88.24	29.56	52.47	29.18	111.69	34.04	275.13	99.95
Total a	1980	31.74	24.45	18.12	8.32	68.03	98.80	129.81	140.53
	1985	66.04	25.90	21.03	9.30	72.97	84.71	175.90	129.54
	1989	93.70	48.57	48.19	28.28	111.26	114.47	275.17	210.85
	1990	90.88	52.79	53.85	35.14	118.72	126.65	286.95	234.80

a Including commodities not classified according to kind.

Source: GATT data files. "Developing Countries" are the sum of Africa, Latin America, Middle East and Asia minus Japan.

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