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SUPPLEMENT TO WORLD ECONOMIC SURVEY 1981 – 1982

Some Notes on Recent Changes in Commercial Policy of Developed Market Economies
Medium-term Growth and Trade in the Light of the Socio-economic Development Plans of Eastern Europe and the Union of Soviet Socialist Republics for 1981–1985

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Department of International Economic and Social Affairs

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FOREWORD

The present Supplement to the World Economic Survey 1981-1982 contains two articles: "Some Notes on Recent Changes in Commercial Policy of Developed Market Economies" and "Medium-term Growth and Trade in the Light of the Socio-economic Development Plans of Eastern Europe and the Union of Soviet Socialist Republics for 1981-1985". Both studies were initially prepared as working papers for use in the preparation of the World Economic Survey 1981-1982. Much of the information and analysis is of a more specific character than normally appears in the Survey itself. Since the studies are on topics of wide interest, however, it was decided to make them generally available.

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Explanatory notes

The following symbols have been used throughout the report:

Three dots (...) indicate that data are not available or are not separately reported.

A minus sign (-) indicates a deficit or decrease, except as indicated.

A full stop (.) is used to indicate decimals.

Use of a hyphen (-) between dates representing years, e.g. 1971-1973, signifies the full period involved, including the beginning and end years.

Reference to "dollars" ($) indicates United States dollars.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

CMEA	Council for Mutual Economic Assistance
EEC	European Economic Community
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
IMF	International Monetary Fund
MTN	Multilateral trade negotiations
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
TNC	Transnational corporations
TR	Transferable rouble
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization

SOME NOTES ON RECENT CHANGES IN COMMERCIAL POLICY OF DEVELOPED MARKET ECONOMIES*

Introduction

In the period since the onset of the world economic crisis of the mid-1970s, the growth of world trade has slowed down significantly as compared to the pace of expansion recorded in the previous decades since the end of the Second World War. Since 1979, world trade has practically ceased to expand altogether, and prospects for the coming few years look very dim. These trends have given rise to doubts as to whether trade will continue to act as a major engine of growth in the world economy.

Two broad sets of factors could account for the performance of world trade. One of them is the pace of economic growth. In recent years, all major groups of countries have experienced a marked reduction in their output growth rates. In this respect, the performance of the developed market economies is of particular importance, since powerful impulses promoting expansion or transmitting recession emanate from these countries. Undoubtedly, the trend towards slower growth in the developed market economies since 1973, and the current recession in particular, has been a major factor behind the slow-down in the expansion of world trade.

The growth of imports into the developed market economies is also heavily influenced by the commercial policies of this group of countries. Since the mid-1970s these countries have resorted increasingly to the imposition of a variety of non-tariff measures, mostly to protect employment in sectors facing severe adjustment pressures. At the same time, however, new efforts have been made to further liberalize trade. The present study reviews major trends in commercial policy in the developed market economies and attempts an assessment of their probable impact on the world trading environment. The intention is not to provide a comprehensive review of all protective measures in existence at the present time or a measurement of current levels of protection but rather the identification of recent changes in commercial policies.

General considerations

Despite the global recession of recent years, the world economy has avoided trade wars of the type experienced in the 1920s and 1930s. While there has been an increase in the protection of some markets, liberalization efforts have continued on other fronts. Rising unemployment levels have understandably led to very considerable domestic political pressure on Governments to slow or reverse the pace of structural adjustment. Nevertheless, adjustment has continued to occur. In an era of slow growth in GDP as well as in trade flows, protective barriers have not mushroomed, in spite of considerable and rising pressure exerted by special interest groups. Of those which have appeared, few have been unilaterally imposed. The right to consultations has been observed. Further, most protectionist measures have not reduced trade flows - they have only lowered their rate of growth.

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* Study prepared by Mr. Seamus O'Cleireacain, Associate Professor of Economics, State University of New York.

Yet while comprehensive trade controls have been avoided, sectoral management of competition in a variety of product ranges continues, and a growing move away from non-discrimination towards selective trade controls is evident. The change in the trading climate is apparent even when trade controls are neither introduced nor explicitly threatened. The growing use of statistical surveillance as an "early warning" system indicates an alertness and willingness to use trade controls against import surges. The speed of adjustment is being more closely managed and indeed greatly slowed down.

Thus all is far from well in international trading relations. The pace of adjustment in developed economies has become hostage to their macroeconomic fortunes. With the projected GATT ministerial meeting in November, the bilateral negotiations relating to the Arrangement regarding International Trade in Textiles, also known as the Multifibre Arrangement, and further discussions of sectoral actions by developed market economies in steel, automobiles, agriculture and other sectors, 1982 promises to be a test year of the ability of the internatonal community to maintain an open trading system.

As in all areas of public policy, protection policy is subject to ebbs and flows. Those who attempt to measure changes in over-all levels of protection face insurmountable problems of aggregation, transparency and, in the end, quantifying the unquantifiable. In any year it is possible to point to the removal of some trade restrictions as well as to the erection of others. Perhaps of greatest importance is not the level reported in empirical studies but the attitudes, on the part of policy-makers and ordinary citizens, towards the importation of goods produced by foreigners and towards livelihoods dependent on the purchasing policies of other foreigners. It is precisely in a climate of general economic uncertainty, particularly pessimism with respect to future growth prospects and the abatement of unemployment, that attitudes with respect to a further deepening of the international division of labour are adversely affected. It is such attitudes that determine whether trade may continue to act as an engine of growth for the world economy.

There are a number of instances of recent protection which deserve particular attention. These include instances of both developed country protection against other developed economies and developed country protection against developing economies. In addition, the underlying implications for the set of rules on which most trading relations are based, namely, the General Agreement on Tariffs and Trade, deserve some discussion, particularly in the light of the experience gained from two years of operation of the codes of conduct negotiated during the Tokyo Round of Multilateral Trade Negotiations.

Many of the new trade measures of recent years involve protection by developed market economies against other developed market economies rather than against developing countries. The widespread management of trade in steel, automobiles and electronics bodes particulary ill for the more industrialized developing countries, which had anticipated that developed market economies would have completed structural adjustment in these sectors. This would have permitted the more industrially advanced developing countries to diversify their range of exportables and even to relinquish some of their traditional products in favour of exports from the relative late-comers to export promotion among the developing countries. The slow-down in the pace of growth of the developed market economies and the rise of administered protection are responsible for the failure of the transfer of market shares to keep pace with the shifts in real comparative advantage in the world economy that have come about as a result of rapid international transfer of technology and productive capacity.

The most important recent case of developed country protection against developing countries is the recently renegotiated protocol to extend the Multifibre Arrangement and the related 1982 bilateral negotiations between each importing signatory and each of the exporting signatories. The importance of the international textile market for both developed and developing countries makes this market a particularly apt subject for a case study at a time when the recession has slowed the process of adjustment in all industries. A more detailed analysis of this sector is found below.

Measurement and features of the "new protectionism"

The nature of modern protection makes it particularly difficult to track accurately changes in its over-all level, as non-tariff barriers have increased in relative importance. These are often unquantifiable, intermittent or merely threatened. Further, with informal and unpublicized "understandings" between Governments, between industry representatives of different countries, and between any Government and its own industry, the analyst faces a redoubtable maze of protectionist measures whose development cannot be captured on a single-dimension scale.

A number of efforts to gauge recent protectionist actions show the difficulties inherent in measuring protection, particularly of the informal variety. While formal application of trade-restraining measures does not appear to have risen significantly in recent years, and in many cases may have declined, informal understandings such as "voluntary export restraints" are becoming increasingly important. In a recent IMF study, Anjaria et al. report on the evolution of developed country commercial policy and conclude that, with the possible exception of EEC, selective protection as measured by anti-dumping, countervailing, and escape-clause actions seems to have diminished. 1/ As they point out, however, in an era of greater reliance on negotiated protection, these measures may not be representative of general trends. A similar conclusion is reached by Gard and Riedel in their 1980 study of the impact of safeguard actions on developing country exports, 2/ namely, that, excluding textiles and clothing, official changes in import barriers do not constitute a serious obstacle to further growth in developing country exports of manufactures. They also point to the disquieting increase in unofficial and informal restraints. S. A. B. Page reaches very definite conclusions regarding the effects of all forms of protection, both formal and informal. 3/ She estimates that just under 50 per cent of all market economy trade was controlled in 1980. This was an increase from a 1974 level of 40 per cent. Within the OECD area, the share of trade in manufactures which was controlled had risen from 4 per cent to 17 per cent.

Although the precisely quantifiable evidence of recent shifts in the magnitude of protectionism remains inconclusive, there is little doubt that protectionism, particularly the informal kind, has been on the rise. However, the underlying commercial policy changes do not appear to have curtailed the expansion of trade flows very drastically. This is not to say that there should be complacency concerning the existing level or structure of protection. The long-run goal of reducing all kinds of formal and informal protection remains to be achieved. Of particular concern is the transformation of the structure of commercial policy towards unmeasurable, informal and selective policy instruments. Since the successful curtailment of tariff barriers through multilateral negotiations within the context of GATT, the world trading system has become increasingly an ad hoc system, responding in a flexible fashion to individual crises, but without the anchor of universally applied guiding principles. This poses a threat to trading relationships so long based on the principle of non-discrimination. The withdrawal of most-favoured-nation treatment from any country whose exports are singled out for restrictive treatment is a clear violation of GATT. With the failure, both during and after the Tokyo Round of Multilateral Trade Negotiations, of proposals to amend the Safeguards Clause (article XIX) of GATT, 4/ subtle arrangements which withdraw most-favoured-nation treatment have become increasingly common. These arrangements have become an integral part of what has come to be termed "administered protection". 5/ Administered protection in the post-MTN system is based on the use of tests to determine whether or not particular criteria are met, on precedents set in previous case law, and on bargains struck with trade officials of other countries. 6/ The increased reliance on administered rather than legislated protection poses a strong threat to the interests of countries that are not parties to international agreements outside GATT.

It may be the case that current protection decisions are increasingly being made within reasonably well-known criteria and that there are a few cases in which exporters are particularly surprised when a trade barrier is erected. Similarly, while the spread of trade monitoring systems may remove previous uncertainty faced by exporters, neither administered protection nor statistical surveillance systems are to be condoned. They may both be more clearly desirable than some of the other possible directions in which commercial policy could have developed. Their role in reducing uncertainty about the future imposition of trade barriers deserves recognition. Yet so does the possibility that they represent incipient steps towards a much less open, much more discriminatory, trading system. The breakdown in the international consensus on how the world trading system is to be administered has been accompanied by a domestication of trade policy in developed economies and the withdrawal by important constituencies of political support for an open trading system. With rising unemployment rates, that these developments show few signs of causing countries to resort to massive protectionist barriers is quite remarkable. 7/

The codes agreed during the multilateral trade negotiations

Because the GATT rules had given rise to various interpretations and practices which were contrary to the spirit of the rules themselves, particularly regarding the imposition of non-tariff barriers, the elaboration of more specific and uniform interpretations of the rules became a paramount concern during the Tokyo Round. In addition, the interim nature of GATT, which was to have been superseded by the charter of the ill-fated International Trade Organization, left the Agreement with inadequate institutional clauses to develop new rules. This difficulty in using the amendment procedures of the Agreement is the main reason why codes of conduct were developed to operate side by side with it. 8/ The manner in which these codes are to be interpreted will provide a crucial test of the continued ability of the GATT system to maintain an open trading system.

The codes of conduct negotiated during the Tokyo Round are an integral part of the system that has been evolving since the conclusion of the negotiations in 1979. At that time, agreement was reached on codes to regulate non-tariff measures in the following areas: subsidies and countervailing duties, technical barriers to trade, import licensing, government procurement, customs valuation, and anti-dumping measures. In addition, the Contracting Parties adopted four "framework" agreements for the conduct of world trade. No agreement was reached on the proposed improvement of the multilateral safeguard system contained in article XIX of GATT.

All but two of the codes have been in force for over two years. 9/ The ultimate contribution of the codes to the maintenance of an open trading system must await the development of a body of case law from the application of the codes. To date, little use has been made of the conciliation and dispute settlement provisions of any code. After two years, the anti-dumping code had yet to face the first initiation of its dispute settlement machinery despite the large number of outstanding anti-dumping actions of some of the Contracting Parties. The Code on Subsidies and Countervailing Duties, on the other hand, which handled no disputes in its first year of operation in 1980, was used twice in 1981 with the initiation of its consultative provisions. The main use of these two codes to date has been in the development of the monitoring role of each code's Committee of Signatories.

The instruments agreed upon during the Tokyo Round are concerned with some of the more pressing and continuing sources of tension in the trading system. Of those instruments, the Code on Subsidies and Countervailing Duties and one of the framework agreements, the Enabling Clause, are of particular interest to the trade prospects of the developing countries.

The Enabling Clause accepts the principle of "special and differential" treatment for developing countries, i.e. it provides a legal basis for the exceptions to the most-favoured-nation requirements of GATT. Existing exceptions include the Generalized System of Preferences and intra-developing country preferences accorded under the Protocol relating to Trade Negotiations among Developing Countries. By removing the need for a waiver of article I, the Enabling Clause makes it much easier for developing countries to form further preferential trading relations. However, the trade which may be shown to have occurred as the result of preferential arrangements has been quite limited so far.

The Code on Subsidies and Countervailing Duties provides an agreement on the manner in which articles VI, XVI and XXIII of GATT are to be interpreted and applied. 10/ In an increasingly open and less tariff-ridden world economy, domestic subsidy programmes have indirect trade effects which may not even be intended. The subsidies code may be expected to handle the complaints of those who feel they have been injured by such trade effects. Countries which have a less strong tradition of state intervention may be expected to have less tolerance for these trade effects. Countries with stronger traditions are likely to view any countervailing action as unwarranted.

The Tokyo Declaration which launched the latest round of multilateral trade negotiations called for the examination of the multilateral safeguard system, particularly the "escape clause" contained in article XIX of GATT. As it stands, article XIX stipulates that, before emergency action can be taken, countries have to show that the particular imports take place in such quantities and under such conditions that they cause or threaten to cause serious injury to domestic producers of similar goods. Once the injury criterion has been met, temporary restrictions may be imposed on imports, but these restrictions must apply to all exporting countries, not merely those reporting high export growth rates.

In view of the non-discrimination requirements of article XIX, countries seeking to limit imports have instead invoked other articles or circumvented GATT altogether by entering into "orderly market arrangements" or "voluntary export restraint agreements". Hence the need arose to improve the multilateral safeguard system.

The debate in the multilateral trade negotiations centred on three main issues which, by virtue of the fact that negotiations about revisions of article XIX have broken down, remain unresolved to date: whether the action should apply to all imports or should be directed against particular suppliers; whether actual instead of merely potential material injury to domestic production in the importing country had to be proved; and whether the action could be taken unilaterally or be subject to either an agreement with the affected parties or a prior determination by the committee overseeing the code. The main concern was that, if selective action was to be allowed, provisions had to be made to ensure that it was not arbitrary.

Some recent instances of protection will be examined below. Although protection focuses on commodity markets, in most cases the production of a particular commodity is heavily concentrated in either developed or developing countries. Thus it is possible to discuss a country's protection as affecting largely developing or intra-developed country exports.

Protection affecting developing countries

While some forms of non-tariff protection against exports of developing countries have been in place for a long time, the selectivity and bilateral nature of the new protectionism has been intensified since the onset of sluggish economic growth in the developed market economies in the mid-1970s. However, in spite of intense protectionist pressures, Governments have not resorted to massive protectionist actions. By November 1981, after one and a half years of operation, a sub-committee of GATT charged with the examination of new instances of developed country protection affecting the exports of developing countries had received only a handful of notifications of new protective measures. Even with the addition of actions reported under escape clause, anti-dumping and anti-subsidy procedures, the number of new cases of developed country protection against developing countries appears to have declined in recent years; however, as mentioned earlier, there are undoubtedly many unreported cases and informal understandings. Reflecting their dominance of developing country industrial exports, a small group of newly industrializing countries have been heavily represented in the reported actions of recent years. The product range affected by these measures consists largely of simple manufactures in which developing countries have a strong comparative advantage.

Although the recent slow-down in the growth of developing country exports may be due more to the sluggishness of the world economy than to increased protectionism, the longer-term effects of current commercial policies in the developed market economies on developing countries could be very serious. Selective restrictions aimed at sensitive product ranges may encourage initial changes in the export composition of developing country exports towards non-sensitive items. Ultimately such selectivity will discourage export-oriented investment and development strategies and encourage import substitution. 11/ To the policy bias towards import substitution still found in the domestic policies of many developing countries is thus added a new bias emanating from the trade policies of developed market economies, just when the experience of many developing countries has led to a wider acceptance of the costs attached to indiscriminate import substitution.

While increased protection may be expected to follow import surges, it should not lead to undue pessimism concerning the viability of export-led growth strategies. 12/ There are numerous labour-intensive industries in developed economies still facing rising demand, in which import penetration ratios are still low, and employment is a small share of manufacturing employment. A test of the proposition that the "new protectionism" of the 1970s has not had as large an impact as was at first expected lies in the growing import penetration of developed country markets by developing countries, a penetration which is occurring at a faster rate than that from all sources. 13/ The emergence of non-tariff protectionism in the 1970s did not destroy the gains of earlier decades. However, as an UNCTAD secretariat report warns, non-tariff protectionism raises the danger of a loss of transparency in policy measures, that is, it increases the secretiveness of commercial policy. 14/

Developed country protection affecting other developed countries

So far, most of the protectionist pressures in developed market economies have been directed against other developed market economies. Trade tensions among developed economies have centred on the bilateral trade balances of Japan with the United States of America and the European Economic Community, and the pricing and domestic support programmes of a number of steel-exporting countries, and trade in certain durable goods such as automobiles and electronics products. Other issues still the subject of disagreement among developed countries are the question whether the Safeguards Clause of GATT (article XIX) should be modified to permit selective action against individual exporting countries, the trade effects of agricultural support programmes, particularly the Common Agricultural Policy of EEC, 15/ and the use of performance criteria in the control of foreign direct investment flows as a form of protection.

Japan has come under increasing pressure to lower its non-tariff import barriers and to restrict its rapidly expanding automobile exports to the United States and EEC. While some action has recently been taken in the area of non-tariff barriers, it has not satisfied Japan's major trading partners. As regards automobiles, a severely depressed sector in the United States and EEC, in 1981 the United States and Japan entered into a three-year agreement to limit Japanese car exports to the United States market. European restrictions on Japanese car exports are also extensive.

In the case of steel, the major source of conflict is the large excess capacity and severe unemployment in that sector on both sides of the Atlantic. Imports into the United States have risen very rapidly despite the existence for a number of years of a trigger price mechanism designed as an early warning system to signal the need for rapid anti-dumping or countervailing duty investigations of imports being sold at prices below those of the trigger price mechanism. Towards the end of 1981, both the United States Government and seven producers initiated complaints against producers from a large number of countries, most of them European, 16/ and the trigger price mechanism was suspended.

The instances of protection described above, though incomplete, suggest that the commercial policy actions of developed economies have, in recent years, been largely directed against other similar economies. Though instances of actions against developing countries are not uncommon, difficulties in the management of their economies have led Governments to concentrate their attention on older industries which employ large numbers of workers and in which productive capacity in developing countries is not yet very large. As noted above, steel and cars have been the two industries of greatest intra-OECD tension. Both are highly sensitive to cyclical disturbances. Both have their locus of production largely within OECD rather than in developing countries, although the latter's productive capacity is growing. Petrochemicals is another mature industry in which difficulties of over-capacity may be expected to become severe in the 1980s. In this sector, recent investments in developing countries, particularly OPEC members, and Eastern Europe are due to come on stream in the next few years. 17/ Thus the adjustment problem may be expected to spread well beyond the confines of the previously mentioned industries.

Determinants of adjustment

The changing nature of protection as described earlier suggests that two characteristics are dominant: (1) institutional arrangements are being increasingly left to the decision of administrators and are becoming more flexible, more capable of discrimination and without GATT restraints to safeguard the rights of exporters; and (2) the measures taken within these institutional arrangements are increasingly industry- and exporter-specific.

Through these two characteristics the ground rules regarding positive adjustment are being drawn. While all OECD Governments may subscribe to the need for positive adjustment, the rate of adjustment remains to be determined largely by the importing country. While the prime determinant of the speed of adjustment should be the difference in production costs, the levels of aggregate and sectoral unemployment in the importing economy are gradually becoming a crucial factor in this process.

The mix between adjustment and protection is highly differentiated by industry, and a number of industry characteristics may be identified which influence an importing country's position along the protect-adjust spectrum. 18/ These characteristics may include the degree of involvement of transnational corporations, the product diversity of threatened firms, state ownership, and the employment situation. In addition, it has been shown that protection is highest in relatively labour-intensive and low-wage industries that employ large numbers of workers and have a few large producers. 19/

Of particular importance in the adjustment process is the role of information. Industries dominated by transnational corporations have a considerably greater ability to adjust than those with a more fragmented market structure. Beyond the larger cushion of oligopolistic profits, the spread of information through a transnational corporation makes it easier to control the pace of adjustment. The decision of such a corporation to supply a domestic market from an off-shore affiliate is likely to be co-ordinated with the planned contraction of domestic production facilities. Newly industrializing developing countries which rely on exports produced by transnational corporations are likely to encounter less hostility in developed country markets, since the import dislocation will have been anticipated, while countries which rely on indigenous producers without an extensive international marketing and production network are more likely to meet opposition and be forced to accept low rates of export growth. This is not to suggest that a strategy of becoming reliant on off-shore assembly is likely, by itself, to produce long-term gains of great consequence for developing countries. The absence of strong links to the internal economy is but one of a number of reasons which might be advanced against such a strategy.

The involvement in the trading process of firms from the developed market economies which provide information to developing country exporters on consumer preferences and needs has also played an important part in fostering exports of manufactures from developing countries and, by implication, in forcing adjustment on domestic producers who stay less in touch with changing trends in their home markets. For example, foreign firms which specialize in importing activities were found to be the most important destination of exports from the Republic of Korea, taking just under 40 per cent, while intra-TNC trade took just over 20 per cent. 20/ This stress on export sales to middlemen who remain closely attuned to changes in consumer trends has been considered a major explanation of the success of exporters of the Republic of Korea. Such a dependence on middlemen involves a sacrifice of potential value added which might be retained by developing country producers who maintain their own sales organizations, but a recognition that information is not costless and that comparative advantage is more likely to lie in production rather than distribution may recommend such a strategy.

Although the previous discussion has concentrated on the question of adjustment and trade flows, it bears repeating that imports are a minor source of the ongoing adjustment process in developed market economies. As numerous studies have shown, technological changes are in general responsible for most of the adjustment pressures that mature industries have to face, and imports are a relatively insignificant factor. Further, the growth of the volume of developed country manufactured exports to developing countries continues to outstrip the growth of the reverse flow in manufactures, thus leading to a net increase in developed country demand and employment in manufactures. 21/

A wide range of monitoring groups in organizations such as OECD, UNCTAD and UNIDO continue to report progress in adjustment, and their efforts in this field may have contributed to the continued, albeit reduced, pace of adjustment of recent years. Many exporting countries may, however, take issue with the speed of adjustment and the distribution of adjustment costs. As a growing number of developing countries establish exporting capacity in manufacturing, mechanisms to distribute adjustment costs are being refined to distinguish between new and traditional exporting countries. As importing countries seek to shift part of the adjustment burden on to traditional exporters to provide market shares for new suppliers, two dangers are apparent. The search for an equity rule (i.e. fair sharing of the adjustment burden) is used to justify protection as traditional exporters face tighter restrictions on the growth of their market shares, and this search also justifies a further erosion of the principles of non-discrimination and most-favoured-nation treatment. Differential access to the trade engine of growth is nowhere more apparent than in the recent renegotiation of the agreement controlling world trade in textiles, the Multifibre Arrangement. The next section contains a short case study of trends in this sector.

International trade in textiles and clothing

No industry better reflects the tension of positive adjustment between developed and developing countries than does the textile and clothing industry. As a large foot-loose sector, its locus of production should respond flexibly and rapidly to global changes in comparative advantage. That it does not is a reflection of powerful political pressures on Governments of developed countries not to ignore the domestic social costs of unemployment. Against the backdrop of the recently renegotiated Multifibre Arrangement in December 1981 and the ongoing bilateral quota negotiations in 1982, international trade in textiles and clothing makes a particularly appropriate case study of how commercial policy may inhibit the relocation of global productive capacity towards developing countries warranted by shifts in comparative advantage.

International trade in textiles and clothing currently amounts to about 6 per cent of total and 7 per cent of non-fuel world trade - a substantial increase over the roughly 4 per cent share it represented in the early 1960s. While these commodities have played a particularly significant role in implementing export-promoting growth policies in the developing countries and remain their most important single non-fuel export commodity group - currently about 13 per cent of total non-fuel exports or roughly twice the share attained in the early 1960s - the bulk of world trade in both textiles and clothing still originates in developed market economies. 22/

Textiles and clothing are extremely diverse sectors, containing both man-made and natural fibres, highly efficient capital-intensive techniques and labour-intensive production technologies. It is therefore extremely dangerous to generalize about trends and the extent to which overt protection in the developed countries has restricted the growth stimulus that exports of textiles and clothing can provide for the developing countries. Several characteristics of world trade in such products deserve mention despite this risk. Among these are the dominant position of a few developing countries in textile exports; the greater transfer of market shares from developed market economies to developing countries that has occurred in clothing rather than textiles; the still large number of people employed in the sector in developed market economies; and the continued low over-all import penetration of developing countries into markets of developed countries. 23/

Although the stereotype of textiles and clothing as a labour-intensive sector in which developing countries have a strong comparative advantage is an incomplete characterization, the level of protection in developed countries leaves little doubt about its accuracy for much of the sector. To the extent that it is correct, the world locus of production could be expected to shift sharply in favour of the developing countries. This has not happened. Certainly, a slow contraction of production in developed market economies has occurred in recent years. The output of the centrally planned economies, however, has continued to grow faster than that of developing countries. 24/

While the adjustment towards more rational global resource allocation in the textile and clothing sectors does not appear very large when measured in terms of production volume, a more striking picture of the process of structural adaptation is provided by the changes that have occurred in employment. In addition, the still considerable absolute and relative importance of employment in textiles and clothing may indicate the stakes underlying recent commercial policies. These sectors account for about 14 per cent of employment in manufacturing in developed market economies and for 28 per cent of that in developing countries. 25/ Developed economies have registered quite different employment patterns in these sectors in recent years. While developed market economies experienced a sharp contraction in employment, with the absolute number employed in Western Europe dropping in 1977 to about 65 per cent of its 1963 level and that of the United States stagnating, employment gains have been quite widespread within the group of centrally planned economies.

The direct or indirect impact of changes in net trade balances on employment in the textile and clothing sectors in developed market economies may, as some analysts have shown, be small relative to the job losses that would have occurred through productivity shifts, 26/ yet they have clearly been large enough to cause powerful political pressure for import restraint. The Multifibre Arrangement, which was enacted in 1973 as the replacement for the long-term arrangement regarding International Trade in Cotton Textiles, 27/ is the instrument through which a wide range of different attitudes towards both protectionism and liberalization are mediated. The Arrangement attempts to set the pace of adjustment of developed market economy industries by restricting the import pressure they feel. Any such limitation on the extent or speed of adjustment is obviously protectionist. The proponents of the Multifibre Arrangement argue that without it, protectionism would be very much higher. In any case, successive versions of the Arrangement have become in fact increasingly trade-restrictive.

As an arrangement sanctioned by GATT, the Multifibre Arrangement removes two safeguards otherwise available to exporters: the protection of article I of GATT and the principles of non-discrimination and most favoured nation enshrined therein, and the requirement that escape clause actions taken under article XIX include a serious injury test. The Arrangement uses criteria of "market disruption" and "serious damage" which differ from the discipline of article XIX in one major respect 28/ - the absence of a counterpart to the provisions of article XIX, paragraph 3 (a), regarding compensation or retaliation should the serious injury test be failed. 29/ In the interest of avoiding unilateral action and in the belief that greater bargaining power exists when negotiating as a group, exporting nations abandoned whatever shelter those articles of GATT would have provided. For the Governments of the importing countries, the need to live up to international agreements, such as the Multifibre Arrangement, has undoubtedly restricted moves for protectionist legislation.

The original Multifibre Arrangement was negotiated before the full impact of the recession of the mid-1970s had manifested itself. Without the knowledge of the economic stagnation into which the world economy was about to fall, the participants in the 1973 negotiations set a minimum of 6 per cent as the growth in global quotas. No maxima were established under the Arrangement. Bilateral arrangements already existed between the United States and its suppliers but they did not emerge on a widespread basis for EEC until one to two years after the entry into force of the Arrangement. In the absence of adequate machinery to police quotas, European textile and clothing industries probably faced far more adjustment pressure than had been anticipated by European negotiators. As a result, when the expiration of the Arrangement in 1978 approached, the negotiations about the renewal of the agreement included provisions for the determination of bilateral quotas.

The 1977 renewal of the Arrangement led to a sharp curtailment of the growth of exports of textiles and clothing from the developing countries to the major developed market economies. This was accomplished outside the specific framework of the Arrangement through an extensive network of bilaterally negotiated agreements about import quota norms. Instead of global norms incorporating minimum annual growth of 6 per cent for all products, the bilateral agreements provided for individual quota levels for an array of product categories based on degree of "sensitivity" or existing import penetration and a number of producer categories based on "dominance" of market share. In addition to this two-way classification, the total EEC quota for a particular product category was further disaggregated for each of its members. This resulted in a myriad of national product quotas, giving rise to "carry-over" (the carrying forward to the following year of unutilized quotas within the life of the Arrangement) and "swing" (switching unutilized quota entitlements from one product category to another) provisions to increase the flexibility of the bilateral agreements. For exporters not subject to a quota on a product category, the system set trigger levels of market shares for each product which, if exceeded, subjected the exporter to a quota. The elaborate bilaterally negotiated EEC quota system to implement the Arrangement applied most stringently to the four "dominant producers" (Hong Kong, Macao, Republic of Korea and Taiwan province) 30/. The system of bilateral agreements enacted by the United States was less extensive and far more discretionary, but just as effective.

The Protocol to renew the Multifibre Arrangment for a further four years and seven months 31/ was agreed upon in December 1981, and the bilateral negotiations began in the spring of 1982. The 1981 Protocol 32/ was signed by 41 signatories (EEC was a single signatory), accounting for over 80 per cent of the $100 billion world trade in clothing and textiles. It contains no reference at all to the original 6 per cent growth target set in the first Arrangement.

The 1981 renegotiated Arrangement is the most protective of the three. Although bilateral negotiations to be completed in 1982 will determine the precise degree of trade restriction, a number of key parameters have already been established. The four dominant suppliers to developed market economies have agreed to a cut in some quotas as a means of providing room for new exporters among the developing countries. This will benefit, among others, Indonesia, Singapore and Sri Lanka. While the individual export growth rates remain to be negotiated bilaterally, they are likely to be very low; in fact, the exports of some product categories of the dominant suppliers will decline. On balance, the arrangements are likely to make room for no more than "positive zero growth", or for annual increases below 1 per cent.

Bilateral agreements reflecting distinctions made by the importers between groups of developing countries involve more complicated arrangements for reciprocal adjustment measures than previously existed. Instead of a two-way sharing of the "adjustment burden" between importing and exporting countries, by which importing countries determined the degree of adjustment pressure to which they were prepared to subject their domestic producers and fixed their level of protection accordingly, a three-way division is now in operation. Under this division, dominant exporting countries bargain with importing countries over the extent to which they should be viewed as having "graduated" to a market share or level of development high enough to warrant bearing some of the necessary adjustment themselves. This takes the form of accepting lower quota growth rates than are made available to the small or non-traditional suppliers.

Difficulties have already emerged in the preparations for the negotiations of the EEC bilateral agreements due to begin in May 1982. Portugal and Spain, two prospective members of an enlarged EEC before expiration of the present terms of the Multifibre Arrangement, are likely to receive further access to the EEC market as part of the ongoing negotiations on the terms of their membership. Both countries are scheduled to join the Communities in January 1984 and the terms of accession now being negotiated may reduce the share of EEC market growth available to developing countries. Further, protectionist pressures on a number of Governments of the members of the Communities, intense while the Protocol was renegotiated, are already mounting as EEC discusses community-wide quotas. A decision will be made towards the end of September 1982 on whether the bilateral negotiations have been successful. If they are judged a failure, EEC members have threatened to withdraw from the Arrangement in the fourth quarter of 1982.

International trade in textiles has been controlled for the past 20 years or so and there is little likelihood of a major change in the near future. The 1981 renewal of the Arrangement reflected four particular features of world trade in textiles and clothing, namely, very low growth in the demand for textiles and clothing from any source; rising global unemployment levels in recent years; the policy stance of graduation adopted by the developed countries; and the stated intention of some countries to perpetuate the complete textile production and processing chain. 33/

Very considerable adjustment has occurred in developed economies, not only through bankruptcies and lay-offs but also through productivity increases as more productive, capital-intensive techniques have been adopted. Market penetration ratios of developing countries have increased quite sharply over the levels that prevailed before the inauguration of the first Multifibre Arrangement. However, the reluctance of developed economies to allow complete production chains to disappear in some product ranges has appreciably slowed the growth of penetration ratios of developing countries, and the third version of the Arrangement holds the prospect that these ratios will be reversed for the dominant suppliers as market access is improved for non-traditional exporters among the developing countries.

The growth in demand for clothing and textiles within EEC amounted to just over 1 per cent per annum between 1973 and 1979. This slow expansion in the world's largest import market would have limited import growth even in the absence of rigid protection. However, coupled with a policy of improving market access for non-traditional exporters, the modest growth in demand implies that the dominant producers face even more dismal export growth prospects in developed market economies. In the longer term, the experience with textiles and clothing suggests that, regardless of comparative advantage, there are very real limits to the extent to which the developed economies are prepared to allow their domestic markets for a wide range of products to be served from abroad. Just as there are dominant suppliers of textiles among the developing countries, so also are there dominant suppliers of other products, including electronics and steel. One lesson to be drawn from the prevailing attitudes regarding market penetration in textiles and clothing is that the exports of developing to developed countries should not become too narrowly specialized in product range or export destination.

For non-dominant textile producers, exports may still be viewed as a dynamic determinant of over-all output growth. Developed country protection may impose a limit on the extent and duration of such growth contribution from exports, but there will undoubtedly be other, more indigenous, limits also. However, over-specialization in a narrow range of product categories within the textile and clothing industry, or even in this sector to the exclusion of others, will compel even non-traditional exporters to embrace adjustment policies much sooner than warranted on the strength of prevailing comparative advantages. The development of an exporting capacity in textiles and clothing should therefore be seen as merely one rung on a ladder leading to a more diversified export structure.

Concluding notes

The current international economic situation is marked by stagnation in economic growth and in the expansion of world trade. In this environment, calls for action that protect employment in sectors facing severe adjustment pressures have intensified, and protective measures, particularly of the informal variety, seem to be on the rise. A new, multifaceted form of protectionism is emerging. Its very nature is making it increasingly difficult to monitor its actual impact on trade flows and the adjustment process. Countries have not thus far resorted to massive protection of threatened sectors. There is no doubt, however, that the growing resort to bilateral agreements which restrain trade by various means is subjecting the multilateral trading system to significant strains. At the same time, there is a fear that in the future protective measures could spread to hitherto unprotected sectors. Thus, the new challenges confronting the international community are not exclusively of a technical nature, but are also political.

If the unraveling of the multilateral trading system is to be avoided, commitments to free trade will have to be backed by action to limit the further proliferation of formal and informal barriers to trade and to dismantle the barriers that are already in place. At the present time, there is a clear inconsistency between the growing internationalization of the world financial system and the increasing resort to measures which restrain trade. Therefore, there is a need to consolidate the progress already achieved in the area of tariffs, to widen liberalization to new areas and to undertake new initiatives to significantly reduce non-tariff barriers to the expansion of trade. The upcoming ministerial meeting of GATT in November 1982 offers a unique opportunity to accomplish these objectives.

MEDIUM-TERM GROWTH AND TRADE IN THE LIGHT OF THE SOCIO-ECONOMIC DEVELOPMENT PLANS OF EASTERN EUROPE AND THE UNION OF THE SOVIET SOCIALIST REPUBLICS FOR 1981-1985*

Introduction

The policies underlying the new economic and social development plans of the centrally planned economies were strongly influenced by the internal and external economic imbalances that emerged in the mid- and late 1970s and that could not be rectified without profound structural adjustments. The current and over-all international economic climate and the markedly below-plan growth performance of recent years played a crucial role in selecting consolidation and structural adjustment over further industrialization in breadth as development priorities for the first half of the decade. Policy makers are apparently expecting that cautious policies in the immediate future can strengthen the foundations for a moderate acceleration of growth later in the decade - an objective that is explicit in several plans. 34/

The socio-economic plans of the centrally planned economies reveal the determination of policy makers to adapt economic structures to the drastic shifts that have affected the world economy since the early 1970s. This is particularly the case for the Eastern European countries. Although all planned economies were confronted with some external shocks already during the preceding quinquennium, the majority opted for only partial and gradual modification of domestic production and consumption relations, a policy stance that entailed some losses in efficiency and output. 35/ Policy makers are reluctant to defer adjustment much longer and are therefore attempting to come to grips in their plans with issues that closely parallel the structural adjustment problems that the market economies have been coping with since the middle of the preceding decade.

The medium-term development objectives on which the current plans are based clearly reflect prevailing and expected constraints on resources. Current policy objectives aim at protecting levels of development already attained, especially the material and cultural welfare levels of the population; restoring internal and external economic balance; maintaining stable and dynamic, if moderate, aggregate output growth; laying the groundwork for more intensive utilization of available production factors; and strict management of the external debt. While the emphasis on further industrialization is more muted than in the past, in nearly all countries of the group both the long-term strategic objectives and the institutions and policy instruments to support further economic advancement have been retained, with comparatively minor adaptations called for by the continuing need to adjust economic structures gradually to present internal and external development opportunities.

The present paper deals with the major policies and development targets of the planned economies against the backdrop of medium-term growth in the world economy. As in this context foreign economic implications assume particular importance, the trade and related issues of the plans endorsed for 1981-1985 36/ deserve special

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* Study prepared by the Secretariat of the United Nations.

emphasis. The first section analyses the recent growth experience of the planned economies in order to identify crucial policy issues that underlie current medium-term growth targets. 37/ Then the salient growth constraints of the 1980s are briefly summarized as essential backdrop to the current medium-term plans. The following three sections deal with the macro-economic output targets of the new plans, their investment and income distribution objectives, and their regional as well as interregional trade implications.

Markedly below-plan performance in the late 1970s

In the second half of the 1970s, the centrally planned economies as a group continued to expand at a rate that compared favourably with the sluggish pace of economic activity in most other industrial countries. Even so, these achievements were far more moderate than anticipated, especially towards the end of the period. The medium-term plans for 1976-1980 had been conceived against the backdrop of some of the then emerging medium-term to long-term constraints on factor and intermediate input availabilities (considered further in the next section), but more particularly in the light of the growing complexity of the regional and international environment for economic growth that emerged in the mid-1970s.

The plans for 1976-1980 anticipated a weighted average rate of growth of about 7 per cent for Eastern Europe and 5 per cent for the Soviet Union - somewhat below the corresponding achievements of about 8 per cent and 6 per cent in the first half of the 1970s (see table). Yet actual developments did not permit the fulfilment of the reduced plan targets throughout the region. Especially in Eastern Europe, the actual 4 per cent annual growth fell substantially short of the 7 per cent mid-point of the target range contemplated in the plans. Certainly, the special situation of Hungary and Poland 38/ reduced the average growth performance of the group as a whole during the period, particularly in 1979-1980. 39/ Nevertheless, the plan fulfilment data show that over-all growth, as well as industrial and agricultural performance, lagged behind anticipated levels throughout most of the period in all members of the group. In fact, the situation tended to worsen towards the end of the decade as some countries, including Czechoslovakia, cut back sharply the pace of domestic economic activity in order to reduce balance-of-payments pressures through *ad hoc* policy measures.

A variety of internal and external factors may help to explain the relatively modest economic performance of the centrally planned economies in the late 1970s. Among the external factors, the marked shift in the terms of trade, persistent external payments deficits, and regional supply bottlenecks were of particular significance in Eastern Europe. Most of these countries experienced a sharp deterioration of their terms of trade, first in relations with outside markets and subsequently in trade within the Council for Mutual Economic Assistance also, which exacerbated the sizable external imbalances that most countries had set out to rectify in the mid-1970s. 40/ Throughout the period, the cumulative payments imbalance exerted considerable pressure and restricted the effective range of feasible policy choices later in the decade. 41/ As exports continued to lag behind expectations - owing to weak demand from outside the area, supply bottlenecks in regional trade and below-plan output performance - import restrictions had to be tightened, which in turn exerted downward pressure on feasible domestic output and export levels. The situation was exacerbated by sluggish growth in the supply of crucial raw materials and fuels from within CMEA, which necessitated a search for alternative suppliers in outside markets. Such

Centrally planned economies of Eastern Europe and the USSR: selected medium-term macro-economic average annual growth rates, actual and planned, 1976-1985

	National income a/			Gross industrial sector b/			Gross agricultural output c/		
	1976-1980		1981-1985,	1976-1980		1981-1985,	1976-1980		1981-1985,
	planned	actual	planned	planned	actual	planned	planned	actual	planned
Albania	6.6-7.0	4.6	6.2-6.5	7.1-7.6	6.0	6.3-6.6	6.6-7.1	3.9	5.4-5.7
Bulgaria	7.7	6.1	3.7	9.2	6.0	5.1	3.7	2.1	3.4
Czechoslovakia	4.9-5.2	3.7	2.0-2.6	5.7-6.0	4.7	2.7-3.4	2.6-2.8	1.7	1.4-1.9
German Democratic Republic	5.0	4.1	5.1	6.0	5.0	5.1	3.0 d/	0.4	0.7-0.9 d/
Hungary	5.4-5.7	3.2	2.7-3.1	5.9-6.2	3.4	3.5-4.1	3.2-3.4	2.9	2.3-2.8
Poland	7.0-7.3	1.2	...	8.2-8.5 e/	4.7	...	2.5-2.8 f/	0.5	...
Romania	11.0	7.3	7.1	11.5	9.5	7.6	6.9-9.0	4.8	4.5-5.0
Eastern Europe g/	6.8-7.1	3.9	3.4-3.8	7.5-7.8	5.5	3.8-4.2	3.1-3.6	1.8	2.1-2.7
USSR	4.7	4.2	3.4	6.3	4.5	4.7	3.0	1.7	2.5
Eastern Europe g/ and USSR	5.3-5.4	4.1	3.4-3.5	6.6-6.8	4.8	4.4-4.6	3.0-3.2	1.7	2.4-2.6

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on national statistical publications, plans and plan fulfilment reports.

a/ National income produced, except for the USSR, where for the planned rates the reference is to national income domestically utilized.

b/ Gross value of output at constant prices, except in the case of the German Democratic Republic, where the data refer to the value of commodity production (i.e., gross output less work in progress).

c/ Change in the five-year average output from the average of the preceding five years, expressed as annual compound rates.

d/ Estimated on the basis of projected individual or aggregate crop and livestock yields.

e/ Value of output sold.

f/ Calculated from end-year data.

g/ Not including Albania and, for the period 1981-1985, assuming the following average annual growth rates for Poland: 0 to 1 per cent for national income, 0.5 to 1.5 per cent for industrial output and 1.5 to 2.5 per cent for agricultural output.

switching of partners proved to be rather costly, as current world market prices tended to surpass by a significant margin the terms then prevailing in trade among CMEA members. 42/

Below-plan performance also resulted from several internal factors, including social commitments of Governments, unfavourable weather conditions, overstretched transportation capacities, and only modest progress in accelerating factor productivity growth. Because of social commitments assumed in the early 1970s, 43/ Governments sought to rectify internal and external economic imbalances by deliberately easing demand growth, investment activity in particular, 44/ and these policy decisions entailed different production and trade mixes that could not be implemented overnight. Furthermore, national output growth was held back by the agricultural sector, where performance lagged well behind expectations throughout Eastern Europe and the USSR. In fact, by post-war standards harvests were extraordinarily disappointing in a number of countries, including Poland and the Soviet Union. Partly owing to Government choices in the early 1970s to accelerate domestic meat output, poor crops necessitated substantial imports of foodstuffs and feed grains, which in turn further strained external balances and in some cases led to a reduction in planned imports of industrial inputs and capital equipment. Again, Governments in most countries had sought by various means to foster the gradual transition from extensive development, predicated largely on increased factor inputs, to intensive growth policies, based primarily on gains in total factor productivity. However, achievements fell far short of expectations, as medium-term and annual targets for average labour productivity could not be reached in most instances. 45/ Finally, capacity limitations in electric power production and in sectors such as construction and transportation hampered adjustments elsewhere in the economy.

Over-all development framework and principal growth constraints in the 1980s

The economic results of the centrally planned economies in the late 1970s were to a large extent influenced by transitory internal and external disturbances. However, below-plan performance also stemmed from emerging medium-term to long-term growth conditions, which are expected to become more fully binding in the years ahead, and thus set rather stringent limits on attainable economic development in the region well into the 1980s. The development plans for the first half of the 1980s have accordingly been formulated against the backdrop of a number of plausible growth constraints, including a long-term slow-down in the growth of the labour force, only moderate expansion of the total volume of investment expenditures, limitations on the distribution of available capital funds, a further deterioration in Eastern Europe's terms of trade, the policy objective of working off past debt, and export marketing problems for many manufactures from the centrally planned economies. 46/ Some of these factors merit closer attention.

First, additions to the labour force in the years ahead will be minimal - at most 0.5 per cent, or less than half the 1.3 per cent average annual rate of expansion of the 1970s - owing to demographic factors 47/ and already very high participation ratios 48/ in nearly all countries. 49/ Labour scarcity on account of small net additions to the labour force will be felt throughout the region. It will be particularly acute in the Central European countries, where under the prevailing economic and social circumstances the possibilities of relocating labour from the agricultural sector to industry are minimal. 50/ The plans therefore emphasize the crucial role of adopting more effective labour allocation strategies to support steady growth.

Second, the over-all volume of investment resources will be rather limited in view of government commitments to maintain or even to increase the levels of living of the population, 51/ in spite of the prospects for reduced output growth and the need to stimulate exports. Furthermore, the technological conditions of investment priorities for the near future are such that incremental capital-output ratios are likely to rise. 52/ Since the centrally planned economies are committed to expanding the output of raw materials and fuels, they will be allocating sizable funds to capital-intensive projects with long gestation periods. Moreover, resources will be devoted to meeting the growing demand for consumer services, some of which - for example, transportation and telecommunication - are capital-intensive, while others are characterized by traditionally lower average labour productivity than in material production. Finally, the alleviation of current bottlenecks in energy production and distribution, transportation and construction also implies relatively capital-intensive investments.

In view of these anticipated physical and economic constraints on the supply and allocation of primary factors of production, output growth in the years ahead will have to be secured increasingly on the basis of productivity gains. These are anticipated from organizational modifications, more intensive utilization of the available capital stock, changes in macro-economic planning techniques, more flexible micro-economic managerial styles, better mobilization of labour resources, allocating capital funds primarily to modernization and automation projects rather than to the expansion of physical capacity, increasing the quality of domestic and export supply, and the more effective utilization of imported technology. Some of the technology required to buttress the anticipated modifications in the structure of production could materialize as a result of special sectoral production specialization agreements, particularly within the context of the five Long-term Target Programmes of Economic Co-operation that the CMEA members began to implement in 1981. However, important components of the demand for up-to-date technology can be satisfied only through trade and co-operation with developed market economies - a factor that is recognized explicitly in some plans 53/ and, by implication, in the medium-term policy discussions in nearly all countries. But unfavourable shifts in the terms of trade and the perceived need to correct external imbalances incurred in the preceding decade pose two further growth constraints that directly affect the scope for technology imports.

Most Eastern European countries face a further deterioration of their terms of trade, owing to the anticipated upward trend in world 54/ and CMEA prices 55/ for key fuels and raw materials and the rather sluggish increase in export prices, and appear to have decided to come to grips with the significant relative price changes that have occurred in the past decade or so. 56/ Furthermore, in spite of a number of integration programmes that are designed to expand the regional production of key industrial inputs in CMEA countries, it has become increasingly evident - and this factor is reflected in the plans - that a significant share of the incremental consumption of basic industrial inputs will have to be procured from outside markets, which will aggravate the constraints on convertible currency imports and may imply higher costs. Plans therefore give a high priority to fostering exports even under conditions of moderate growth of domestic output, marketing problems abroad, and sluggish external demand growth. In the event of the Eastern European economies failing to increase their export revenues sufficiently, imports of other goods may have to be compressed further and sustainable output and consumption levels revised downwards, as occurred in some countries in the late 1970s.

Finally, the pace of output and consumption growth in the early 1980s in Eastern Europe will be strongly determined by the success of policy adjustments to work off the external debt incurred during the past decade. The convertible currency debt was one of the most serious constraints on policy choices in the late 1970s and was partly responsible for the severe import curtailments sought by most countries. By the end of 1980, Eastern Europe's net convertible currency debt amounted to some $56 billion or nearly twice the total value of merchandise trade with non-socialist partners. 57/ The ratio of net debt to convertible currency revenues was particularly high for Poland (exceeding three) and rather large (exceeding two) for the German Democratic Republic and Hungary. For the Soviet Union, however, the net debt of some $11 billion was less than one third of revenues from merchandise exports to non-socialist countries. 58/

Given the level of indebtedness, the anticipated state of world capital markets, the reluctance of the planned economies to seek a significant expansion of private bank loans, and other policy considerations, it has now become imperative for nearly all Eastern European economies to adjust their economic structures not only to keep the debt manageable but also, above all, to generate a current account surplus and thus ease the external constraints on economic activity. However, owing to an already strained import policy and the rather difficult task of accelerating rapidly exports to convertible currency areas, the over-all debt is likely to increase 59/ throughout the current medium-term plan period for most Eastern European countries, and it could begin to decline only in the second half of the decade.

External constraints are not, of course, as severe a limitation on economic activity in the Soviet Union as they appear to be in the case of the Eastern European economies, one reason being that the role of trade in the Soviet economy is not as extensive. Furthermore, owing to the importance of fuels and raw materials in its export profile, the Soviet Union can count on further improvements in its terms of trade and faces fewer marketing problems. In the last resort, the country is a significant gold producer and has sizable gold and foreign exchange reserves which permit flexibility in trade policies. These rather favourable circumstances do not, however, completely remove the importance of external constraints, particularly if the Soviet Union were to experience further harvest setbacks or if output gains of crucial fuels and raw materials were to lag appreciably behind anticipated internal and intra-CMEA requirements.

Over-all output plans and sectoral policy orientation

Against the constraints on resource availability and policy options discussed in the preceding section, the centrally planned economies chose to formulate, by post-war growth standards, comparatively modest targets for the early 1980s, although in the light of development constraints some of these goals are quite ambitious. The economies of the group are aiming at a weighted average output growth rate of about 3.5 per cent, 60/ slightly less than the 4.1 per cent obtained over the preceding quinquennium (see table) but quite strong by comparison with the results reached in the past two years (about 2.5 per cent). The deceleration over levels obtained during the concluded five-year period is more pronounced for the Soviet Union than for Eastern Europe, but only Albania and the German Democratic Republic forecast an acceleration of growth of at least one percentage point. This aggregate growth is to be obtained by expanding industrial production slightly more moderately than the pace observed in 1976-1980 - the small acceleration in the USSR being offset by the sharp deceleration in Eastern Europe - and by considerably increasing agricultural output. These proportions imply that rather low rates of growth are planned in other commodity sectors, construction in particular.

Industrial output is slated to expand on the average by about 4.5 per cent, or at roughly the same rate as in the preceding quinquennium, which implies a further increase in the share of industry in national output. Only the German Democratic Republic, Hungary and the Soviet Union plan a slight acceleration over 1976-1980 achievements. All plans stress that industrial growth must be generated primarily from increased factor productivity, which accounts for at least four fifths of the targeted output gains. Whereas earlier medium-term plans emphasized the need for rapid autonomous structural change in breadth and devoted much attention to new construction projects, current plans reflect greater concern for adjusting industrial structures in depth to changing internal and external development conditions, minimizing the volume of new projects, and completing investment projects with minimum delays. In that light, the plans reflect the view that desirable further changes in the macro-economic structure of some economies should not be pursued vigorously under the prevailing austere development conditions and that, in other countries, the post-war period of important macro-economic changes has come to an end and further growth will have to be secured by concentrating resources. Policies are therefore oriented predominantly to intra-branch modernization, automation, and better utilization of available production facilities. New projects will be initiated only when necessary to round off industrial structures, especially in the south-eastern European countries, or to come to grips with supply constraints in fuels, energy and raw materials, or capacity limitations in sectors such as transportation.

Country projections show that the branch structure of industry will be modified in several directions. All countries give explicit priority to the further development of fuels, mining and basic processing branches, from internal resources and in co-operation with other CMEA members. Nearly all countries aim at reducing the gap between the rates of growth of heavy industry ("sector A") and light and food-processing industries ("sector B"), although on the average the share of sector A in total industrial output will increase further. In some countries, including the Soviet Union, heavy industry will expand more slowly as output of consumer goods is to be accelerated. Growth in the production of intermediate goods, on the other hand, is to be eased without necessarily affecting production levels in user sectors as a result of bold efforts to economize material inputs. Finally, engineering continues to be the prime industrial branch, as in the recent past, 61/ and its growth is planned to surpass that for industry as a whole by about 10 to 15 per cent.

An important priority stressed in nearly all plans and dominant in the attendant policy discussions is the need for conservation of essential material inputs throughout the economy, especially in industry and construction. In view of internal and external supply bottlenecks and rising costs, the relatively energy- and material-intensive economic structure of the planned economies had posed critical problems in the late 1970s. The 1979-1980 annual plans of several countries already incorporated ambitious policy steps designed to reduce the specific material - especially energy - intensity of industrial output in particular, and the measures had ramifications throughout the economy. The objective envisaged was two-pronged. On the one hand, countries sought to strengthen their import-containment strategy or, in some cases, to promote exports, particularly to convertible currency partners. Measures to save fuel and materials were also embraced to buttress the drive towards raising average productivity levels. Both objectives have been maintained, and all current plans emphasize the crucial role in further economic advancement of reducing the material intensity of production. Savings are anticipated as a result of major systematic conservation efforts, adjustments in the economic structure away from energy- and raw material-intensive branches, and input substitution.

Nearly all plans disclose explicit targets for the desired reduction of the economy's intensity in material inputs or energy. 62/ In some cases, these aims are very ambitious 63/ but appear feasible if plant and equipment modernization supplements organizational and managerial efforts directed at conserving inputs. Conservation goals therefore impose a number of restrictions on the distribution of investment funds as well as on the composition of imports. The importance attached to these medium-term conservation goals has been reinforced in recent policy debates, and planners have stressed that further economizing measures may have to be embraced if domestic output lags behind plan targets or if external goals are not attained. In some cases, such as Czechoslovakia, 64/ the original savings targets have already been revised upwards.

Input substitution and shifts in the composition of industrial output are also expected to contribute to the slow-down in requirements, especially of imported fuels and raw materials. All countries, individually and in concert within the context of joint CMEA strategies, have adopted ambitious programmes directed at shifting the energy balance in favour of coal, natural gas and, especially, nuclear power. While it is estimated that total fuel production will increase by less than 2 per cent per year, the output of electrical energy will grow by roughly 4 per cent annually. The latter will be increasingly procured from nuclear generators, 65/ although for most countries this factor will become important only in the second half of the decade. 66/

The contemplated shifts in the composition of industrial output anticipate in part the successful implementation of planned conservation efforts. Thus relatively low growth rates for traditional metallurgy, basic chemicals, construction materials and some fuels mirror the targets for reducing the specific material content of output. However, shifts in the planned composition of industrial output have also been targeted in response to domestic supply constraints, the reduced investment demand for structures, and the more stringent import restrictions.

Agricultural production is being accorded a central role in the range of policy measures directed at restoring as rapidly as possible internal and external equilibrium. 67/ Output expansion, together with changes in the mix of crop and livestock products, are being sought to attain as much self-sufficiency as possible or even to realize sizable convertible currency revenues, particularly from livestock products. These over-all goals undoubtedly reflect anticipated import constraints and show that efforts to alleviate balance-of-payments pressures are not being confined to industry.

The countries of Eastern Europe, especially the Soviet Union, anticipate a relatively fast recovery of agriculture. Output in this sector is expected to grow during 1981-1985 at an annual rate of about 2.5 per cent over the average levels of 1976-1980. On a year-to-year basis, the targets work out to about 4 to 5 per cent, a goal that contrasts sharply with the 1 per cent attained in the second half of the 1970s. 68/ Average weather conditions, implementation of organizational changes, including incentive programmes for small farms, and external conditions that facilitate imports of required fertilizers and feed grains out of current export earnings could render these targets feasible.

There appears to be a strong concern for restoring balance in agricultural production by accelerating the growth of crop output, particularly grain and other basic fodder crops, while livestock output is expected to increase at a more modest pace. Balance in agricultural production and reduced dependence on imported grains are also increasingly sought by changing the composition of livestock in favour of cattle and away from pigs and poultry. In some members of the group, growing importance is being attached to the potential role of small farms in procurements of livestock products, vegetables and fruits, in particular. The realization of these goals would help to forestall a repetition or magnification of the supply difficulties, especially for meat and fodder, that were encountered in the second half of the 1970s.

Policy discussions throughout the group indicate that the countries are determined to reduce imports of agricultural products and foodstuffs from convertible currency areas, 69/ which in some centrally planned economies had come to play an increasingly important role in the trade and development strategies of recent years. 70/ The CMEA members endeavour to widen systematically the regional supply of agricultural products and foodstuffs through common efforts, and a special Target Programme directed at remedying agricultural supply bottlenecks is currently being implemented. For the first half of the 1980s, however, production targets of meat and grains appear to fall short of desirable consumption levels in the Soviet Union in particular. 71/ While Eastern Europe may succeed in offsetting its net imports of grains with meat exports, plan targets imply that the group as a whole will continue to be a net importer of agricultural products and foodstuffs from outside markets at least in the first half of the 1980s.

In line with austerity in investment expenditures and the emphasis on more efficient utilization of existing capital structures, construction output is expected to grow only moderately throughout the group. The main support for construction activity will be in the area of housing, as all plans specify relatively buoyant residential construction programmes in spite of modest increases in total capital expenditures. In fact, only Czechoslovakia and the Soviet Union are planning no growth in residential construction over the levels achieved in the preceding five-year period. The other countries of the group aim at increases of 1 to 2 per cent annually - that is, somewhat lower than in past years - thereby claiming for housing a larger share of available capital funds than appropriated in the 1970s.

Investment strategy and distribution of national income

The sharp slowing down of over-all investment activity and the selective concentration of appropriated funds constitute perhaps the most explicit evidence of the consolidation and adjustment policies that the centrally planned economies are currently seeking to implement. The investment strategies embodied in the plan targets imply a major shift in the distribution of over-all output in favour of consumption, 72/ especially social consumption.

Average planned rates of growth of capital outlays range between -2 and 5 per cent over the average levels of 1976-1980. 73/ The only relatively strong growth is forecast by Albania, Bulgaria and Romania, as these countries appear to be bent on further diversifying their industrial structures, but current targets are substantially below post-war rates and amount to about half of the over-all aggregate expansion planned in the late 1970s. While the sharp deceleration in the growth of investments will undoubtedly affect future production capacities, all countries are hoping to mitigate its impact by speeding up the completion of projects in progress, more careful selection of projects, and much more efficient utilization of available capacities. As a result, average capital-output ratios for the economy as a whole are expected to decline in the medium term in spite of the fact that a major share of new investments will be allocated to capital-intensive fuel and raw materials projects with long gestation periods. 74/

The austere capital outlay programmes currently contemplated reflect the over-all protection of consumption levels and the need to improve the external balance. These two policy goals also left their imprint on the planned sectoral distribution of funds and their allocation between structures and equipment. In fact, the plans stress that new projects should be initiated only in support of the drive towards accelerating productivity growth, improving the external balance, and reducing the domestic and imported material content of production. In addition to such projects, primary attention is devoted to modernization and the more intensive utilization of available structures. 75/

Regarding the sectoral distribution of investment funds, there appears to be a general tendency to reduce the share appropriated for the traditionally favoured heavy metallurgical and chemical sectors in favour of expanding output of energy, fuels and other scarce industrial inputs; alleviating bottle-necks, especially in transportation and communication; improving agricultural output; and increasing consumer services, including residential construction, social infrastructure, environmental protection and technical services.

Trade and co-operation

A pivotal component of the policy objective of adjusting economic structures to conditions conducive to fostering factor productivity growth is the further expansion in the scope and intensity of foreign trade and economic co-operation. Unfortunately, most national medium-term plans do not provide explicit details about concrete intentions with respect to over-all and regional trade levels in the first half of the 1980s.

In view of the external growth constraints, the general state of uncertainty in the world economy, and the fact that the centrally planned economies cannot plan trade as accurately as domestic activities, it is not surprising that trade targets are not spelt out in detail. The countries that have disd targets for trade volume changes apparently intend to expand trade rapidly. The ratio of the average growth rate of trade to that of over-all output is expected to be at least 1.2, and for most countries the implied trade elasticity is substantially larger - of the order of 1.5 to 1.8. 76/ These are undoubtedly ambitious goals, especially in view of the broad conditions under which trade gains will have to be generated in the near future. In view of the constraints on trade and co-operation with the market economies, one prime focus of present economic policies is accelerated integration within CMEA.

The countries that have disclosed firm targets separately for over-all exports and imports are aiming unambiguously at fostering exports and decelerating import growth as much as possible without affecting negatively consumption levels or compressing investment activity below levels that are deemed essential to buttress medium-term to long-term growth prospects. Throughout the region, real import growth is expected to be small relative to planned output growth and well below the levels observed in the preceding decade. To some extent, the expected small expansion in import volume derives from the anticipated unfavourable movement in the terms of trade for nearly all Eastern European countries. The major determinant of this objective, however, follows from the paramount concern to compress the external imbalance and to attain balanced trade by mid-decade, though that may be a somewhat optimistic objective for a number of countries.

Concerning the geographical direction of trade, the plans are even less explicit. The current five-year trade agreements with CMEA members forecast an annual rate of increase in the volume of regional trade of the order of 5 per cent. 77/ Implicit in much of the policy debate accompanying the medium-term plans is the expressed desire to move forward primarily with regional partners. 78/ However, exports to market economies will be encouraged in order to avoid exacerbating the external constraints on growth and, particularly in some Eastern European countries, to work off the convertible currency debt. In combination with modest domestic growth targets, this policy goal may imply comparatively lower regional export than import growth rates for most Eastern European countries - a policy objective whose feasibility may be contingent on adjustments in the traditional intra-CMEA trade and payments arrangements, which have been constructed largely on the basis of bilaterally balanced trade.

Perhaps implicit in the debates about regional trade and co-operation policies is the willingness of the Soviet Union - the major potential surplus country in the region - to continue to extend trade credits that will permit its regional partners to adjust gradually to the new international economic environment, even at the cost of regional imbalances. The CMEA co-operation programmes for the 1980s are designed to yield significant volume increases in exports of manufactured goods, mostly from Eastern Europe, in exchange for fuels and primary goods, largely from the Soviet Union. The latter may therefore be receptive to incurring temporary surpluses which are expected to be offset by anticipated deficits later on in the decade, when the new co-operation schemes will be fully on stream.

A substantial portion of the economic activity of the Eastern European CMEA members will be governed by comprehensive 10-year sectoral specialization agreements concluded primarily with the USSR, the five Long-term Target Programmes of Economic Co-operation, the Second Concerted Plan of Integration Measures, medium-term trade agreements, and a score of other co-operation agreements, particularly in the field of scientific and technological advancement and their incorporation into production. 79/

Since the mid-1970s, the CMEA members have been elaborating Target Programmes that directed at improving regional co-operation and increasing the level of production to satisfy as much as possible region-wide demand in the following areas: energy, fuels and raw materials; agriculture and foodstuffs; machinery and equipment; manufactured consumer goods; and transportation. These five over-all programmes comprise some 340 projects, the majority of which will be started during the current medium-term planning period as specified in the Second Concerted Plan, which was endorsed by the thirty-fifth CMEA session in July 1981.

The five Target Programmes are a collective effort to redress the currently prevailing imbalances in some member countries, to support buoyant growth in the CMEA area, to secure greater regional self-sufficiency in many producer and consumer goods, and to expand and modernize the transportation sector. Although all programmes will contribute to strengthening regional growth, a particularly important role in maintaining relatively dynamic expansion and accelerating regional co-operation has been accorded to the Target Programme for fuels, electrical energy and raw materials. Some key objective of this programme are the restructuring of the CMEA members' energy balance on the basis of the accelerated development of nuclear power and the wider utilization of solid fuels; the adoption of strenuous conservation measures; stepped up prospecting, particularly in the non-European CMEA members; increased domestic output of fuels and minerals; and the location of energy - and raw material-intensive production facilities closer to sources of supply, thus promoting regional specialization. 80/

Simultaneously with the elaboration of the Target Programmes, CMEA members have designed long-term production specialization agreements, especially for products from the engineering and chemical industries. All Eastern European countries have signed such agreements with the Soviet Union, and several have concluded similar agreements among themselves. Though there is a measure of overlap between these agreements and the Target Programmes, the bilateral specialization agreements in several respects endeavor to advance regional co-operation well beyond the variety and intensity of measures included in the Target Programmes.

Medium-term forecasts of trade and co-operation levels between centrally planned and market economies are particularly fraught with uncertainty. Nevertheless, the present five-year plans incorporate policy statements from which some trade implications may be inferred. Moreover, some output and consumption targets are sufficiently well specified for the likely consequences for trade with market economies to be derived. Given the differences in resource endowments and growth constraints, the prospects for east-west and east-south trade are rather different for the Eastern European countries and for the Soviet Union.

In the case of the Soviet Union, buoyant trade with the market economies would appear to be predicated on its investment intentions and ability to expand the domestic surplus of crucial fuels and raw materials, the level of economic activity and import demand in the market economies, and the degree of foreign participation in large fuel, raw materials and infrastructural projects in the Soviet Union, for example, the Yamal gas pipeline. Certainly, in a medium-term perspective the USSR is likely to step up exports of fuels and raw materials in exchange for mostly agricultural products and investment goods. While imports of investment goods may temporarily have to be constrained on account of unanticipated needs for other imports - in the case of harvest setback, for instance - this should not inhibit a significant expansion of trade with the market economies in the medium run.

In spite of the over-all problems that burden smooth economic relations between Eastern Europe and market economies, the prospects for an acceleration in trade in the early 1980s depend largely on the success of the export promotion policies of the planned economies, the speed with which improvements in the structure and quality of output can be introduced, the time frame within which dynamic output growth on the basis of factor productivity gains can be accomplished, and the maintenance of a high credit standing in world financial markets. In that light, the chances for a resumption of rapid growth in trade volumes are rather dim. Since the Eastern European economies have set the mid-1980s as the deadline for restoring external balance, imports will have to be financed largely out of current export proceeds. If exports can be accelerated faster than anticipated, imports could be expanded on the basis of current revenues and also out of new capital inflows that may in all probability follow upon an improved credit-worthiness conditioned by good export performance. The planned economies' credit standing has recently been severely tested as a result of Poland's structural external payments deficit and Romania's liquidity problems. The successful adjustment policies of other Eastern European countries appear to have been favourably received in world financial markets. The possibilities for increased exports from the planned economies to industrial countries will be further affected by growing competition from the more industrialized developing countries and perhaps from China, especially if slow economic growth continues to affect the developed market economies.

In view of the specific trade patterns of the USSR, and Eastern Europe's rather stringent foreign exchange limits, the bulk of the outside trade of the centrally planned economies will probably be conducted with the developed market economies. Although the developing countries undoubtedly have a comparative advantage in a number of light and standardized manufactured goods, the absence of institutions providing capital to finance exports of manufactures to the planned economies, the difficulties of gaining a foothold in economies that centrally control their trade patterns, and the planned economies' preference for a high degree of self-sufficiency in consumer goods 81/ make it unlikely that the there will be a sharp acceleration in the exports of manufactures from the developing countries to CMEA members during the current medium-term planning period. On the other hand, present output programmes show that the gap between the total demand for and regional supply of a number of fuels and raw materials will not be closed in the immediate future, in spite of strenuous conservation and joint co-operation efforts within CMEA. A growing share of Eastern Europe's incremental demand for fuels and raw materials will therefore have to be procured from outside markets, which may lift the volume of east-south trade. In view of the foreign exchange constraint, however, a sharp upswing in over-all import value will be contingent on an acceleration of exports. Although most centrally planned economies can competitively export a wide range of manufactured goods, the acute need to boost convertible currency exports while observing intra-CMEA trade and payments commitments under conditions of slow growth severely restricts the latitude of markedly widening the volume of exports on credit.

On balance, therefore, a resumption of rapid growth in the volume of trade between the planned and market economies in the immediate future is unlikely. At best, buoyant growth in the imports of the USSR will be offset by considerably more modest growth in those of Eastern Europe, and the relatively slow volume growth in the exports of the USSR will be compensated by the more dynamic expansion of exports from Eastern Europe.

Notes

1/ S. J. Anjaria et al., Trade Policy Developments in Industrial Countries, IMF Occasional Paper No. 5 (Washington, D.C., July 1981), p. 9.

2/ Linda M. Gard and James Riedel, "Safeguard Protection of Industry in Developed Countries: Assessment of the Implications for Developing Countries", Weltwirtschaftliches Archiv, vol. 116, No. 3 (1980), pp. 471-492.

3/ S. A. B. Page, "The Revival of Protectionism and its Consequences for Europe", Journal of Common Market Studies, vol. XX, No. 1 (September 1981), pp. 17-40.

4/ Article XIX specifies conditions under which countries may impose temporary restrictions on imports which threaten to cause serious injury to domestic producers.

5/ See Douglas R. Nelson, The Political Structure of the New Protectionism, World Bank Staff Working Paper No. 471 (Washington, D.C., July 1981).

6/ Perhaps the best known criterion is the injury test. For a detailed examination of this criterion, see Rodney de C. Grey, Injury, Damage, Disruption (UNCTAD/MTN/217, Geneva, 30 October 1981).

7/ Nelson (op. cit., p. 17) attributes it to sophisticated low-level domestic mechanisms which provide the politically necessary incremental protection but no more. To some extent the post-MTN GATT codes are an attempt to establish a surveillance mechanism to oversee these low-visibility domestic mechanisms.

8/ John H. Jackson, Developing Country Relationship to the GATT in the Post-MTN Era (UNCTAD/MTN/205, Geneva, 13 April 1982), pp. 3-6.

9/ The codes on government procurement and customs valuation came into effect on 1 January 1981.

10/ These articles prescribe rules to protect importers from actions taken by exporting countries which violate GATT rules, such as dumping and export subsidies.

11/ S. J. Anjaria et al., op. cit., p. 24; and G. K. Helleiner, "Structural Aspects of Third World Trade: Some Trends and Some Prospects", The Journal of Development Studies, vol. 15, No. 3 (April 1979), p. 81.

12/ Kym Anderson and Robert E. Baldwin, The Political Market for Protection in Industrial Countries: Empirical Evidence, World Bank Staff Working Paper No. 402 (Washington, D.C., October 1981), pp. 22-23.

13/ Helen Hughes and Jean Waelbroeck, "Can Developing Country Exports Keep Growing in the 1980s?", The World Economy, vol. 4, No. 2 (June 1981), p. 143.

14/ UNCTAD secretariat, Protectionism and Structural Adjustment in the World Economy (TD/B/888, Geneva, 15 January 1982), p. 81.

15/ Agricultural policies in EEC also have a major restrictive impact on exports of developing countries.

16/ These actions also affected some developing countries and a centrally planned economy.

17/ Louis Turner et al., Living with the Newly Industrialising Countries (London, Royal Institute of International Affairs, Chatham House Papers, 1981).

18/ See Lawrence G. Franko, "Adjusting to Export Thrusts of Newly Industrializing Countries: An Advanced Country Perspective", The Economic Journal, vol. 91 (June 1981), pp. 486-506.

19/ Kym Anderson and Robert E. Baldwin, op. cit., pp. 17-22.

20/ Larry E. Westphal, Yung W. Rhee and Garry Pursell, Korean Industrial Competence: Where It Came From, World Bank Staff Working Paper No. 469 (Washington, D.C., July 1981), p. 61.

21/ J. M. Finger, Industrial Country Policy and Adjustment to Imports from Developing Countries, World Bank Staff Working Paper No. 470 (Washington, D.C., July 1981), pp. 8-11.

22/ The share of developed market economies in total textile trade was 76 per cent in 1965 and 70 per cent in 1979; in the case of clothing, the share dropped from 70 per cent in 1965 to 51 per cent in 1979. While the share of the centrally planned economies in both textiles and clothing increased somewhat, the bulk of the drop in the trade shares of the developed market economies was absorbed by exports from developing countries.

23/ In some product lines, however, import penetration ratios are very substantial.

24/ Textile output in the period 1971-1980 increased at an average annual rate of 3.4 per cent in developing countries and at 4.7 per cent in the centrally planned economies; the corresponding numbers for the clothing sector were 4.6 per cent and 4.9 per cent. In contrast, average output growth of textiles and clothing in the developed market economies during the same period amounted to 1.3 per cent and 0.9 per cent, respectively.

25/ Donald B. Keesing and Martin Wolf, Textile Quotas against Developing Countries (London, Trade Policy Research Centre, Thames Essay No. 23, 1980).

26/ For a survey of methodological issues, see Organisation for Economic Co-operation and Development, The Impact of the Newly Industrialising Countries (Paris, 1979), annex II, and Donald B. Keesing and Martin Wolf, op. cit., chap. 4.

27/ The Long-term Arrangement was negotiated in 1962 but, in an era prior to the widespread use of synthetic fibres, was confined to cotton. In 1965 man-made fibres accounted for only 29 per cent of world fibre production. By 1979 this share of world production had grown to 47 per cent, while over 55 per cent of textile exports are now composed of man-made fibres.

28/ Rodney de C. Grey, Injury, Damage, Disruption (UNCTAD/MTN/217, Geneva, 30 October 1981), p. 25.

29/ However, among the changes in the operation of the Arrangement in its current version that were embodied in the conclusions of the Textile Committee meetings of December 1981 was the introduction of precisely such "equitable and quantifiable compensation" and of a "surge mechanism." The latter restricts the ability of exporters to take up under-utilized quotas if their efforts to do so would lead to increases in imports which are viewed as unduly rapid by the importing country.

30/ Taiwan province is not a signatory, however.

31/ This odd time frame stemmed from a compromise between the five-year renewal sought by developing countries and the four-year duration envisagd by the developed countries; in order to avoid a clash with a religious holiday, the mid-point was shifted by one month.

32/ GATT/1304 of 22 December 1981.

33/ Commission of the European Communities, The European Community's Textile Trade (Brussels, April 1981), p. 1.

34/ Some countries, including Bulgaria and the Union of Soviet Socialist Republics, have embedded their current five-year development targets within an over-all planning mould for the 1980s. After "overcoming present difficulties", Soviet policy makers anticipate more substantial growth later in the decade (see, for example, Prime Minister A.N. Tikhonov's Pravda (Moscow), 27 February 1981, p. 2.).

35/ An explicit statement to this effect was pronounced at the sixteenth Congress of the Communist Party of Czechoslovakia in the Central Committee report by Secretary-General G. Husák (see Rudé Právo (Prague), 7 April 1981, p. 3).

36/ The present paper relies on the information at the disposal of the Secretariat at the end of 1981. Finalized plan documents are available for some countries, but for others it was necessary to rely upon the details of the medium-term plan guidelines set by the recent congresses of the political parties. Final targets usually diverge only slightly from congress guidelines, although in the current round final plans on the whole specify thw lower bounds of the target range set in the guidelines; in some cases, investment expenditures in particular, the final targets are even below the guideline growth rates.

37/ The reference base will be broader than the information for 1976-1980 reviewed in the new five-year plans. In this connexion, the policy debates surrounding the current plan directives, which put the quantitative objectives within the context of recent economic achievements, are particularly relevant.

38/ The former deliberately chose deflationary policies in order to redress external imbalances and to gain room for broadening the role of indirect instruments in shaping and implementing economic policy. Severe external payments problems in Poland necesitated an abrupt deceleration of economic activity which, by mid-1980, was compounded by rather significant output shortfalls, stemming especially from shortages of material supplies. For more details, see World Economic Survey 1980-1981 (United Nations publication, Sales No. E.81.11.C.2.), pp 21-24.

40/ Given the comparitively greater scarcity of capital in planned economies than in market economies, capital flows into Eastern Europe and the Soviet Union would appear to be desirable on economic grounds. Policy makers of these economies are however rather reluctant to expand significantly their country's dependence on private bank capital and do not generally permit private foreign investments. They do welcome foreign capital in the form of joint ventures and compensation deals, and other forms of co-operation that are coupled with provisions for product marketing in convertible currency areas. Developments in the 1970s indicated that there are rather stringent limits to such types of capital transfers.

41/ For most Eastern European countries, debt-service ratios - defined as the sum of repayments on medium-term and long-term debt and interest on total debt as a share of merchandise exports to non-socialist countries - rose during the 1970s. The ratio reached large magnitudes for Bulgaria, the German Democratic Republic and Hungary (between about 40 and 55 per cent in 1980) and for Poland (more than 100 per cent in 1980); the ratio ranged between 20 and 25 per cent for the other Eastern European countries, and it was probably less than half that value for the USSR.

42/ In 1975, the CMEA price-setting principles were reinterpreted so that from then on intra-CMEA trade prices for goods specified in the medium-term trade agreements would be set annually on the basis of the average world prices of the preceding five years. Since world market prices, particularly for fuels, rose sharply in the late 1970s, intra-regional trade prices for such products remained below those in world markets, owing to the lagged feed-through formula for intra-CMEA trade. For some deliveries, actual prices were even below that level, owing to agreements negotiated at fixed prices in the late 1960s (see the next section). Above-plan deliveries, however, were transacted at world spot prices.

43/ The particular commitments differed from country to country but usually included one or more of the following: minimum wages, pensions, consumer price stability, accelerated residential construction, children and family allowances, extended maternity leave, and the like.

44/ The negative impact of this factor on present and future growth possibilities will be examined in the next section and in the section entitled "Investment strategy and distribution of national income" below.

45/ Secretary-General G. Husák recently paid particular attention to the slow progress in implementing growth intensification policies as the chief reason behind the below-plan progress attained in the late 1970s (see Rudé Právo (Prague), 7 April 1981, p. 3).

46/ Secretary-General L. I. Brezhnev recently noted in this connexion that especially low growth in labour resources, rising incremental capital-output ratios for new projects, the urgent need to modernize production facilities in certain sectors, and improvements required in transportation and communication were among "a number of factors that tend to make economic development more complicated in the 1980s" (Ekonomicheskaia gazeta (Moscow), 1981, No. 9, p. 9).

47/ For the group as a whole, population growth in the 1980s will at most equal the growth attained in the 1970s (see "Exploration of growth determinants and patterns; note prepared by the secretariat of the Economic Commission for Europe", Economic Bulletin for Europe (Oxford), vol. 33 (1981), No. 3, p. 351).

48/ For example, the ratio of active to total females of working age is well above 0.7 in the centrally planned economies - for example, about 0.85 in Czechoslovakia and 0.8 in the German Democratic Republic. This contrasts markedly with most developed market economies, where the participation ratio in the late 1970s reached 0.7 only in the case of Sweden; in most other countries it fluctuated around 0.5.

49/ Female participation ratios have been judged too high for demographic and social reasons, and some countries, including the German Democratic Republic and Hungary, have recently enacted social legislation that may lead to reduced participation.

50/ Although the total labour force in agriculture is still large in comparison with most industrial countries, relative to average participation ratios, the agrarian labour force in the centrally planned economies is dominated by the elderly and by females. Capital could undoubtedly be substituted for labour and thus release workers in a technological sense. However, the social and economic costs of such a decision are quite high and are unlikely to be borne in the near future.

51/ None of the present plans discloses specific targets for private consumption. However, in view of over-all socio-economic policies and the target rates for real income, wages, retail trade and other variables related to consumption levels, all Governments are at least protecting current levels of living. Most are also providing for moderate increases in consumption, albeit at a substantially slower pace than anticipated productivity gains.

52/ Several of the current plans emphasize the need to decrease the over-all capital-output ratio. However, this objective appears to derive from hoped-for gains in total factor productivity resulting from more intensive utilization of the capital stock and better labour allocation policies in existing production facilities, rather than from the implications of investment strategies (see the section entitled "Investment strategy and distribution of national income" below).

53/ For example, Hungary's sixth five-year plan, which amounts more to a set of reflections on policy guidelines than to a collection of specific growth targets, states that trade with developed market economies "should serve more and more the effective further development of the production structure and the raising of [Hungary's] technical standard" (Népszabadság (Budapest), 21 December 1980, supplement, p. 10).

54/ In contrast to the direction of intra-CMEA prices in the near future, plausible trends for world prices are much harder to specify as future movements are a function of the degree of adjustment undertaken in the world economy and the pace of demand growth, especially in the developed market economies. However, it is unlikely that there will be a significant real decline in the price of fuels in the medium term and the relative price of crucial other industrial inputs will probably also increase if world output picks up momentum.

55/ Since the formula used during the period 1976-1980 as reference for intra-CMEA prices will be retained, CMEA prices for 1981-1985 can be more easily predicted than world prices. It should also be noted that some Eastern European countries, including Czechoslovakia and the German Democratic Republic, will obtain through 1984 a substantial proportion (about one quarter) of their crude oil imports from the USSR at a fixed price (15 transferable roubles per ton) negotiated in 1966 and 1967, when these countries participated in raising the capital for the expansion of crude oil production in the Soviet Union. The comparable export price for Soviet crude in 1975 was about TR 37 (according to Népszabadság (Budapest), 23 February 1975, supplement, p. 4) and in 1980 about TR 80 (as reported for Poland in Trybuna Ludu (Warsaw), 11 October 1981, p. 5), which contrasts still favourably with the average 1980 world price of about TR 130 to 140 per ton.

56/ Not all countries, however, are setting domestic prices in accordance with major trends in world prices. Those that do not enforce scarcity through prices attempt to pattern planned structural adjustments according to shifts in real relative costs.

57/ Since no official debt or convertible currency trade figures are available, convertible currency trade is here assumed to coincide with non-socialist trade, which includes trade with clearing partners among the market economies but excludes convertible currency trade with socialist partners.

58/ For a review of the impact of the convertible currency debt on recent and future growth, see Polityka (Warsaw), 1981, No. 47, p. 19.

59/ On some plausible assumptions regarding feasible export and import policies, particularly with developed market economies, one estimate of the debt in 1985 puts it at from $87 to $98 billion for Eastern Europe and from $25 to $30 billion for the Soviet Union (D. W. Green and J. Vaňous, "The outlook for CMEA trade and debt", working paper presented at a seminar in New York, October 1981).

60/ No final five-year plan is as yet available for Poland, and the draft approved in early 1980 during the party congress may in any case be no longer applicable. In order not to exclude the second largest economy of the group from the calculations, the estimates specified in the table were prepared on the basis of preliminary 1981 output results, the discussions about feasible growth ranges for 1982, and the general policy debates about the near future.

61/ The ratio of growth in engineering to industrial output growth was planned to be between 1 and 1.35 in 1976-1980, but actually ranged between 1 and 1.23.

62/ Hungary plans to reduce the energy elasticity of national income to 0.6 to 0.7 and the German Democratic Republic aims at even lower levels (see statement by Secretary-General E. Honecker in Neues Deutschland (Berlin), 12 April 1981, p. 5). This posture may have been dictated by the increase in energy elasticities in all Eastern European countries in the second half of the 1970s. However, this unfavourable development probably resulted from the sudden curtailment in the level of economic activity which, for technological reasons, was matched only partly by lower growth in energy consumption. Long-term energy-GDP elasticities for the periods 1961-1970 and 1961-1979 (a) declined in all countries, including the USSR; (b) were below 1 except in Bulgaria and Romania (1961-1970); and (c) ranged from 0.63 in the German Democratic Republic to 1.14 in Bulgaria (see "Changes in macroeconomic activity and energy trends in the 1970s and some long-term implications: note prepared by the secretariat of the Economic Commission for Europe" (EC/AD.(XVII)/AC.1/R.4), pp. 35-37).

63/ The German Democratic Republic, for example, aims at an average annual reduction of 5 to 5.5 per cent in the material intensity of industrial production, which is well above the 3 to 4 per cent reduction achieved in recent years.

64/ According to Rudé Právo (Prague), 26 August 1981, p. 1, the five-year plan target for the average annual decrease in the consumption of energy for the economy as a whole has been increased from 2 to 3 per cent. Targets for conservation of raw materials and intermediate inputs have apparently also been raised.

65/ Cuba and most Eastern European members of CMEA are currently implementing an ambitious nuclear reactor programme that will expand electricity-generating capacity in these countries in 1990 by an amount equivalent to about one third of present levels.

66/ The share of nuclear energy in electricity output in the Soviet Union is expected to increase from 5.6 per cent in 1980 to 14.2 per cent in 1985; the corresponding numbers for Bulgaria are 19 and 28 per cent. Nuclear energy will soon also assume an important role in Czechoslovakia.

67/ The pivotal role of agriculture was recently emphasized in Rynki Zagraniczne (Warsaw), 26 September 1981, p. 1.

68/ The mapping of five-year over five-year growth rates into end-year ones necessarily assumes that there will be steady growth from the terminal year of the preceding period to that of the current period at the rate implied by the sum of planned output over five years.

69/ For example, the German Democratic Republic is aiming at an average level of domestic grain production of 10 million tons, which would permit an average reduction of imports from convertible currency markets of 1 million tons during 1981-1985.

70/ In the case of the Soviet Union, for instance, imports of foodstuffs rose from virtually nil during the 1960s to about one quarter of all convertible currency imports during the late 1970s.

71/ If grain feeding rates in the Soviet Union are held at recent levels and the target crop output of about 240 million tons is attained, grain imports will be in the range of 20 to 30 million tons per year. However, herd improvements in combination with more efficient forage crops and use of high-protein feeds may reduce average import needs. For meat, the output goal falls slightly short of planned per capita increases in real incomes. Per capita meat consumption levels in 1980 were about the same as in 1975, in spite of imports of some 820,000 tons, and the total demand for meat could not be fully satisfied. This backlog in demand, as well as increments stemming from higher incomes, will probably lead to a high income elasticity of demand for meat in the current plan period. Therefore higher imports are likely to be necessary in order to restore market balance in the early 1980s.

72/ In the case of the Soviet Union, it is worth noting that it is the first time that a medium-term plan specifies lower growth rates for investments than for over-all output.

73/ No data are available for Poland. However, on the basis of developments in 1981, the 1982 preliminary plan discussions, and more general policy discussions, it appears highly likely that negative investment growth is contemplated at present.

74/ In the German Democratic Republic, for example, the over-all capital-output ratio is slated to shrink from 2.86 in 1980 to 2.72 in 1985.

75/ The Soviet Union, for example, appropriates 70 per cent of industrial investment for modernization and retooling.

76/ Export elasticities in the 1970s ranged from 1.2 to 1.6, and import elasticities from 1.1 to 1.4 in the case of Eastern Europe; the corresponding magnitudes for the USSR were 1.3 for exports and 1.7 for imports. In the second half of the 1970s, however, import elasticities were much lower in most Eastern European countries - in only one country was the elasticity significantly above 1 - and export elasticities were generally well above 1.5. Exactly the reverse trend was observed in the Soviet Union, where the export elasticity was below 1 but the import elasticity was more than 1.6. (All elasticities were derived from the estimated parameters of double-logarithmic regressions of foreign trade quantum indices on the index of net material product produced at constant prices.)

77/ On the basis of five-year to five-year magnitudes, the average annual volume increase slated in current intra-CMEA trade agreements is 6.3 per cent (based on the 1980 constant price trade values reported in Plánováné Hospodářství (Prague), 1981, No. 8, p. 84), which implies a volume growth of just under 5 per cent per year over the 1980 trade values. Actual rates of growth may turn out to be higher, owing to the fact that some countries conclude supplementary trade agreements that as a rule fall outside the transferable rouble-based trade and payments régime of the CMEA region.

78/ For a broad review of the envisaged co-operation, see N. Inozemtsev, "Kursom ekonomicheskoi integratsii", Planovoe khoziaistvo (Moscow), 1981, No. 8, pp. 15-20; Ekonomicheskaia gazeta (Moscow), 1981, No. 45, p. 20; and J. Merhaut, "RVHP na rozhraní pětiletek", Plánované Hospodářství (Prague), 1981, No. 8, pp. 83-87.

79/ The annual and medium-term bilateral trade agreements are the operative instruments that dovetail the domestic and external planning processes, including those concerning explicit integration initiatives. The Target Programmes specify over-all development strategies in selected fields for a period of 10 to 15 years. Each field included in a Target Programme will be the subject of multilateral and bilateral negotiations, which may result in a specific agreement to carry out jointly a desired project. Once signed, the implied total trade volume and factor mobility is subsequently disaggregated into five-year plan targets of a Concerted Plan. This CMEA-wide plan is linked directly with the national medium-term development plans and the corresponding bilateral trade and payments agreements which set the over-all framework for the annual development and trade plans.

80/ In addition to being desirable from the point of view of economies of scale and comparative advantage, this location policy is expected to yield sizable savings in transportation costs and will permit the productive use of relatively abundant energy that cannot be transported economically under current technological conditions.

81/ The enhancement of national and regional self-sufficiency implied by the successful implementation of the Target Programme for non-food consumer goods directly impinges upon the chances for an acceleration of exports of manufactures from the developing countries.

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