1. At the meeting of the Working Party on Structural Adjustment and Trade Policy on 2 July 1981, it was agreed that the secretariat should invite all contracting parties to provide by the end of 1981 the information required in paragraph II(b) of the Annex to L/5120, taking into account the objectives outlined in paragraph I of the Annex and the work already done (L/5177, paragraph 10). Paragraph II(b) of the Annex to L/5120 states that one of the tasks to be undertaken is "consistent with the GATT and the results of the MTN, an exchange of information and discussion on the experience of all contracting parties with regard to structural adjustment, along with an overall analysis of the experience".

2. Contracting parties were invited in GATT/AIR/1742 of 13 July 1981 to provide the requested information. Submissions received so far from Chile, the European Communities, Finland, Hong Kong, Pakistan, Singapore and Spain are reproduced in the Annex to this document.

3. Some participants have underlined that, with a view to the usefulness of the exercise, they attach considerable importance to the fact that all members of the Working Party fulfil their obligation and make written contributions. These participants have also indicated that they would be prepared to participate in an examination of their contribution in the Working Party only when notifications of the other contracting parties participating in the Working Party have also been received.

4. Delegations which have not yet submitted information are requested to do so as soon as possible.
Annex I

COMPARATIVE SITUATION OF THE CHILEAN ECONOMY
BEFORE AND AFTER THE REFORMS
UNDERTAKEN IN 1973

I. Economic policy up to 1973

For more than forty years the economic model applied by Chile was based on import replacement, dating back to the depression in the 1930s and further intensified after the Second World War.

At the political level, this period was characterized by increasing State intervention, to such an extent that the economy became virtually State-controlled and centrally planned.

Nevertheless, these State-controlled protectionist policies did not allow best use to be made of the country's comparative advantages and at the same time resulted in economic growth rates much lower than in the rest of the world, with continually rising inflation rates.

Another consequence of these policies was great vulnerability of the external sector of the economy, where one single export product - copper - accounted for more than 90 per cent of the total value of exports.

II. Situation of the Chilean economy in 1973

The principal characteristics of the economic situation in 1973 were the following:

1. Existence of price controls for many goods and services, mainly consumer goods, causing tremendous distortions in the economy.

2. Pronounced imbalance in public finances, with a tax deficit equivalent to 23 per cent of product.

3. Inflation, measured by the wholesale price index, reaching 1,147 per cent per annum.

4. Stagnation in the producing sector and an exchange régime based primarily on the existence of a black market.

5. Draining of international reserves.

6. Under-developed financial market, with interest rates imposed by the authorities.

7. Existence of ad valorem tariffs ranging from 0 per cent to 750 per cent, the average rate being 105 per cent.
8. Existence of innumerable tariff barriers, which can be grouped in three categories:

(a) Prior deposits: more than half of all goods authorized for import were subject to the lodging for 90 days of a prior deposit equivalent to 10,000 per cent of their value.

(b) Prohibitions: 187 tariff headings were the subject of an import prohibition.

(c) Visas: more than half of all goods authorized for import were subject to a visa requirement, with consequent delays due to bureaucratic formalities and the discretionary powers of public officials.

The existence of barriers of this type was tantamount to direct or indirect import prohibition for more than 60 per cent of all goods.

9. Multiple exchange rates. In June of the year under reference, for example, there were ten different exchange rates: the exchange rate applicable for foodstuffs was Esc 20 to the dollar, whereas the exchange rate applicable to imports of machinery was Esc 65 to the dollar and for tourism Esc 775 to the dollar.

III. Economic policy since 1973

This policy was based on two fundamental elements:

(a) Outward-looking approach; and

(b) The principle of the subsidiary rôle of the State, the latter taking responsibility only for activities in which it is more efficient than private enterprise, allowing increased support for the market mechanism as a means for allocating resources.

The principal measures applied to implement this new policy were the following:

1. Gradual elimination of price controls.

2. Budgetary reform designed to balance the national budget; this target was achieved in 1975 for the budget in national currency and in 1979 for the foreign exchange budget.

3. Reform of the financial system with a view to liberalization of interest rates and development of capital markets.

4. Reform of the provident system under which pension funds have been liberalized, allowing the individual depositor to capitalize his funds. This reform has made the labour factor more mobile.
5. Labour plan. This guarantees freedom of affiliation and contributions, allowing the workers to decide on the orientation of trade-union activities. The plan recognizes a basic right to 100 per cent of the cost-of-living increase as a minimum result of negotiation.

6. Tax reform. Implementation of a verification system designed to prevent tax evasion, improvement of the income tax structure, replacement of the purchase and sales tax by a 20 per cent value-added tax.

7. Customs reform. Progressive reduction of tariffs to a uniform level of 10 per cent which was attained in July 1979 for all imported goods, with the exception of products falling within certain customs headings of the motor vehicle sector, for which that rate will be reached in 1986.

The trend in tariff rates over the period 1973-1980 can be seen from the following table:

<table>
<thead>
<tr>
<th>Period</th>
<th>Average %</th>
<th>Maximum %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973 Second six-months</td>
<td>105.0</td>
<td>750</td>
</tr>
<tr>
<td>1974 First six-months</td>
<td>85.0</td>
<td>750</td>
</tr>
<tr>
<td>Second six-months</td>
<td>65.0</td>
<td>140</td>
</tr>
<tr>
<td>1975 First six-months</td>
<td>57.7</td>
<td>140</td>
</tr>
<tr>
<td>Second six-months</td>
<td>47.7</td>
<td>120</td>
</tr>
<tr>
<td>1976 First six-months</td>
<td>38.6</td>
<td>120</td>
</tr>
<tr>
<td>Second six-months</td>
<td>32.4</td>
<td>70</td>
</tr>
<tr>
<td>1977 First six-months</td>
<td>23.6</td>
<td>70</td>
</tr>
<tr>
<td>Second six-months</td>
<td>20.0</td>
<td>45</td>
</tr>
<tr>
<td>1978 First six-months</td>
<td>14.7</td>
<td>24</td>
</tr>
<tr>
<td>Second six-months</td>
<td>12.7</td>
<td>19</td>
</tr>
<tr>
<td>1979 First six-months</td>
<td>10.9</td>
<td>14</td>
</tr>
<tr>
<td>Second six-months</td>
<td>10.2</td>
<td>10</td>
</tr>
<tr>
<td>1980 First six-months</td>
<td>10.1</td>
<td>10</td>
</tr>
<tr>
<td>Second six-months</td>
<td>10.1</td>
<td>10</td>
</tr>
</tbody>
</table>

Excluding the motor vehicle sector
8. As regards exchange policy, since 1973 a single basic exchange rate for exports and imports has been established at the rate of Esc 280 to the dollar. Because of the fact that in Chile the copper-mining industry constituted a special case, a different rate of exchange was fixed for earnings from exports of that type (Esc 110 to the dollar).

In addition, the Government adopted a policy of periodic and moderate devaluations in order to avoid deterioration of the real value of the exchange rate in relation with international price movements.

Following the balance-of-payments surplus achieved in 1976, the national currency was revalued on two occasions, each time by 10 per cent in real terms.

Since 1978, the authorities have been establishing an advance annual tabulation of the daily dollar rate, corresponding to a devaluation of the national currency by 21.4 per cent each year.

Lastly, the price of the dollar was fixed at 39 pesos in mid-1979, and that value is still applicable.
Annex II
STRUCTURAL ADJUSTMENT IN THE
EUROPEAN COMMUNITY

PART A - GENERAL

I. Introduction

The need for adjustment to constantly changing economic conditions is widely recognized and accepted in the European Community and its economic and industrial policies are designed to encourage such change. As the first in the world to industrialize, European economies have long had to cope with internally and externally generated transformation in the structure of their industries. In the past, however, adjustments usually took place during times of growth and expansion, when displaced labour could readily be absorbed by rapidly expanding sectors and investment levels were high enough to ensure steady improvement in productivity.

The economic climate of the 1980s is grim. The European Community is faced with major challenges: energy reconversion, introduction of new technologies, trade challenges from industrialized countries and need to accommodate greater exports from the developing countries. The social and political consequences of the present situation constitute a heavy burden for the Community and make it more difficult to maintain the pace of the adjustment process than in certain other developed countries. In addition to the externally generated pressures for adjustment to which all economies are subject, the Community has to contend with internal constraints connected with migration within its borders and the need to ensure progressive integration of the Common Market.

Although action in this area relates primarily to the internal affairs of both the member States and the Community - which by definition are not open to international negotiation - the effort to bring about structural adjustment in nonetheless grounded on external industrial and commercial relations that allow each partner to profit from existing complementarities and comparative advantages. From that point of view, the maintenance of an open system of world trade constitutes a powerful stimulus for each country to rationalize and improve its production structures.

The European Community is the world's biggest international trader. Trade is vital to the development of the Community and its member States. The Community not only has one of the lowest average tariffs in the world but is also one of the contracting parties to the GATT with the greatest number of bound duties. Obviously a trade policy constructed on such
pillars cannot but be conducive to continuous structural adjustment. As noted in the GATT study on International Trade 1980/1981, "adjustment is an aspect of the market process" and the Community has amply demonstrated that it allows the process to exert its impact on the Community economy.

II. Macro-economic situation and prospects

Profound changes in the availability and relative costs of production factors during the past decade and major modifications in the structure of demand have created a pressing need for adjustment in all industrialized countries, including those of the Community. Successive increases in oil prices have had a depressing effect on the level of economic activity and the international monetary system has become increasingly unstable. As the Community remains one of the most open and important world markets, the impact of both increased price competition from developing countries and increased technological competition from certain industrialized countries has been particularly severe during the current recession.

Owing to the general deterioration of the economic environment, the rate of growth of world trade fell back to 1.5 per cent in 1980, the lowest annual rate in twenty years, except for 1975. While European Monetary System currencies were fairly stable within the system, the external exchange rates of the major currencies fluctuated widely in spite of intervention by the monetary authorities; the fluctuations were due not only to imbalances in current payments positions but also to monetary-policy trends and interest rates in certain countries.

Against this general background, the rate of the Community's economic growth slowed markedly in 1980: GDP increased by only 1.5 per cent, as compared to 3.4 per cent in 1979, and is expected to show a reduction of 0.4 per cent in volume for 1981. The average annual growth rate for the Community over the period 1981-1985 is liable to be about 1.9 per cent, which is lower than the 2.2 per cent average for 1974-1980, and much lower than the 4.5 per cent trend rate of the 1960s.

Over the past five years, inflation has been fuelled by the rise in external and domestic costs and rates have averaged about 10 per cent, as compared to 5 per cent from 1960 to 1973. There were two inflationary surges of over 12 per cent in 1974-1975 and 1980, due to the oil shocks, which added some 3.5 points to the consumer price index on each occasion.

Owing to the present social-demographic situation, with the number of young people and women coming onto the labour market far outweighing those retiring from it, and to the unfavourable economic conditions, overall unemployment in the Community has risen rapidly in recent years; at the end
of October 1981 the rate of unemployment as a percentage of the active
civilian population was estimated at 8.5 per cent, which means over
9.7 million unemployed. Some groups are harder hit than others: in
mid-1981 almost 40 per cent of the unemployed were under twenty-five years
of age; women account for almost 43 per cent of the unemployed while
constituting only 30 per cent of the active civilian population. Whereas
between 1960 and 1973, 250,000 new jobs a year were created in the Community,
the employment level in 1979 was practically the same as in 1973. The trend
of investment is a key factor here: gross fixed capital formation increased
during the 1970s at an annual rate of 2 per cent, as compared to 5.7 per cent
during the 1960s. This decline in investment growth obviously affected the
ability of the European economies to deal with the energy constraint, to
bring down unemployment, to reduce unit costs and regional disparities, and
more generally to make the structural adjustments needed to maintain their
competitiveness in a free-trade context.

It is clear therefore that the adjustment process is proceeding in an
unfavourable general economic climate. In addition to the increasing
obsolescence and often unfavourable location of much of its industrial
infrastructure, that process in the Community is hampered by a number of
social and regional constraints. Social constraints. As already stated,
at the end of October 1981 unemployment in the Community reached 8.5 per cent,
with women, young people and workers in certain sectors and regions being
much harder hit. Adjustment of the industrial infrastructure inevitably
involves redeployment of labour and this trend has been aggravated in certain
traditional industries by intense price competition and by the effort made
to replace the labour factor with the capital factor in order to improve
competitive positions vis-à-vis both industrialized and developing countries.
In the past, labour displaced from agriculture and declining industry was
absorbed first by industry and later by the service sector:

| CIVILIAN EMPLOYMENT |
|---------------------|-----------------|-----------------|-----------------|
|                     | EEC (9)         | United States   | Japan           |
| Agriculture         | 10.6 | 7.7  | 4.5  | 3.6  | 17.4 | 11.2 |
| Industry            | 43.3 | 38.9 | 34.4 | 31.4 | 35.7 | 34.9 |
| Services            | 46.1 | 53.4 | 61.1 | 65.1 | 46.9 | 53.9 |
|                      | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

While the trend in the Community has been satisfactory when compared to the United States and Japan, the industrial sector is still larger in the Community. The current demographic and economic situation in the Community calls for a greater expansion of jobs in the service sector than can at present be envisaged because of the dependence of a large number of service-sector jobs on developments in industry.

But quite apart from the quantitative aspects, adjustment has also been apparent in the quality of products and the location of production:

- 1980 products are very different from what they were in 1970. They are highly improved, reflecting not only adjustment to new international standards but also the specialization opted for by European producers;

- over the last decade, European producers have also set up new plant in non-member countries where they benefit from the comparative advantage of lower unit costs, or where normal trading has been prevented by a restrictive trade policy in those countries.

In spite of considerable labour-shedding in a number of sectors vulnerable to international competition there has been hardly any decline in the volume of output.

### EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
<th>1973 ('000)</th>
<th>1980 ('000)</th>
<th>Numbers of jobs lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>1,848</td>
<td>1,336</td>
<td>-512</td>
</tr>
<tr>
<td>Clothing</td>
<td>1,276</td>
<td>943</td>
<td>-333</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>775</td>
<td>599</td>
<td>-176</td>
</tr>
</tbody>
</table>

Source: Eurostat.

Virtually all the growth in domestic demand has been met by imports so that the penetration of certain markets by non-Community producers has increased substantially: from 12 per cent in 1970 to 25 per cent in 1979 for footwear; from 21 per cent in 1973 to 41 per cent in 1979 for textiles; and from 2 per cent in 1970 to 15 per cent in 1980 for motor-cars. The Community has, however, managed to maintain its market share in sectors that are capital-intensive and require highly skilled labour. These are the first to generate technical progress and to spread it (activities linked to research and development, telecommunications, machinery and engines, chemicals, energy).
The average annual growth-rate of imports of investment goods (in value terms) rose from 16.4 per cent in 1970-73 to 18.9 per cent in 1975-79, while that of exports declined from 12.9 per cent to 10.2 per cent. Although there are some exceptions these trends are due to various factors such as a deterioration in price competitiveness, and in certain sectors to the fact that technological adjustment has been too slow. In addition, the rate at which necessary adjustment proceeds in the traditional industries cannot be completely dissociated from the development of replacement industries.

Competitive industrial activities have not yet expanded sufficiently to absorb the labour becoming available and make up for the value added that has been lost or will be lost owing to the continuing decline in the relative share of certain industries in the secondary sector. As a result, it is not possible to guarantee a satisfactory level of domestic employment. Over the past four years, the tertiary sector has managed to provide 2,300,000 jobs in market services and 1,000,000 jobs in government. But it cannot go on playing this rôle indefinitely (particularly as many of these jobs directly depend on industry) and great efforts will be needed in such promising areas as energy, micro-electronics, aerospace and biotechnology which can either take over from declining industries or, through the transformation of production methods, revitalize them by removing the obstacles to their progress.

Regional imbalances

Given the pressure of adverse economic conditions and a geographical distribution of economic activity dictated more by history than by the requirements of a modern society, there is a growing tendency towards divergence between the different regions of the Community. The regional disparities within the Community are more pronounced than those within individual member States. Moreover, the "out-migration" of surplus labour to the more developed regions, while improving the level of per capita income in some disadvantaged zones, has also impaired the potential development of certain regions. These regions have found it difficult to attract investment because of inadequate infrastructure, distance from the market and lack of skilled labour. Very often the fate of the economically weaker regions is tied to that of traditional industries such as textiles. Keener international competition has had considerable repercussions on such areas because they are often geared to labour-intensive low-technology production and find it difficult to attract replacement investment, particularly that which could bring anything like a comparable level of employment.
III. Community and national policies

With economic growth slow and inflation rates excessively high, these problems have led to a change in the thrust of economic policies over the last few years, reflecting essentially a new attitude to the rôle, quantitative and qualitative, of the public sector in the economy. The various forms of government intervention – whether public expenditure and its financing, production activities through public undertakings, support measures, incentives or regulatory provisions – all have different effects, varying with their intensity and methods, on capital accumulation, the quality and availability of labour, the pace of technological innovation, and hence ultimately on the economy's structural adaptability.

The present world situation makes it impossible to rely exclusively on traditional demand management policies; in several member States, the reduction of budgetary deficits has become a priority objective in combating inflation and an increase in the cost and the shortage of financial resources available for private investment. Special attention is also being given to current and capital expenditure and their rôle in stimulating and supplementing private-sector activity, and to tax incentives for saving and investment.

All the member States of the Community intervene in varying degrees in the economy through public undertakings of State holdings. The need to restrain the growth of public deficits has generally led to stricter constraints as regards profitability, cost and price trends, financing conditions and quality of management of these undertakings. Nevertheless, they can be an important instrument in bringing about the adjustments required in such areas as energy, telecommunications and transport.

A tendency to reassess measures that affect firms directly (financial and tax incentives, regulations, etc.) is also emerging, although to varying degrees, in the member States. It is increasingly realized that protective measures should be avoided which endanger increased productivity, impede adjustment by penalizing the most dynamic sectors of the economy, and entail high budgetary cost.

It is being accepted that sectoral interventions should be kept to a minimum. Apart from the danger that they may freeze production structures, their effectiveness is in any case limited: adjustment can no longer be defined by strict reference to traditional sectoral categories and it is clearly dependent also on progress in such areas as energy saving, the dissemination of technological skills and the improvement of human capital.
The change in policy direction is quite obvious in the case of measures to help employment. The solutions adopted since 1975 to cope with the serious problems of adjustment have not been sufficient to promote adjustment on the scale required; however, budgetary constraints and the obvious incapacity of those measures to restore competitiveness have led the member States to adopt other measures more consonant with positive adjustment, such as improving vocational training and contributing towards its cost, granting assistance or tax exemption for the creation of new jobs – particularly for certain categories of workers hard hit by the recession – or helping to reduce the costs associated with a more rapid compression of the workforce in certain ailing sectors.

The need to reduce market rigidities created by public intervention has for example led to price decontrol and to the promotion of competition by closer surveillance of restrictive practices; in several countries, the whole range of regulations, often of an administrative nature, has been redrafted since their simplification and moderation are more than likely to improve the operating conditions of firms.

Another aspect of the trend towards a freer play of market forces is the special importance being accorded to small and medium business. There have been numerous measures to reduce the disadvantages faced by such enterprises, for example, in access to capital, information, technology and certain services concerned with market prospection and penetration, without depriving them of the advantages derived from operating on a modest scale.

The Community has contributed to adjustment both through its own policies and through the co-ordination of national policies. At the macro-economic level, the creation of the European Monetary System has contributed to a certain stability of exchange rates and has provided a coherent framework for the administration of economic policies. Action by the Community to maintain and improve free trade within the Common Market has led to a freer operation of market forces, thereby exerting constant pressure towards competitiveness, and therefore adjustment.

Community policies in the field of competition and co-ordination of national measures have enhanced the natural tendency of market forces to bring about necessary structural changes. In the industrial field, the Community has been led, because of its institutional responsibilities in matters of competition and trade policy, and its powers under the ECSC Treaty, to take direct action in respect of certain sectors exposed to very strong pressure to adjust. Rules have been drawn up governing the intervention of the States in sectors in difficulty and in less developed regions which are designed to discourage the member States from maintaining the status quo and to improve the prospects of adjustment.
PART B: SPECIAL CONSIDERATIONS IN THE AGRICULTURAL SECTOR

I. Specific constraints

On the whole, structural changes in the agricultural sector take place at a slower rate than in other sectors. This phenomenon is attributable to a number of factors, both at the domestic level, in terms of the countries concerned, and at the international level.

1. At the domestic level

National policies have been developed which aim at objectives that are not directly related to market rules: for example, strategic, social (with a view to raising the income of farmers to a level close to that of other categories), environmental and regional objectives, which at the national level often assume an imperative character from the point of view of general economic policy.

In this connexion, it is interesting to note that 45 per cent of the Community's useful agricultural area consists of permanent grassland and meadowland, which offer practically no possibilities of utilization other than for stock-farming.

What is more, these crops grown cannot be abandoned for overriding reasons, such as soil conservation.

2. At the international level

The instability of international markets for agricultural products constitutes, in our view, a considerable brake on the process of adjustment of agricultural structures. As can be seen, price fluctuations in these markets are becoming increasingly wide, rapid and frequent. These fluctuations are attributable to:

- the smallness of the quantities traded in comparison to the volume of world production and the volume traded in domestic markets,

- irregular and often unpredictable demands for large quantities of foodstuffs,

- speculative operations,

- shortages or surpluses resulting from the hazards of the weather,

- international monetary instability, which exacerbates price movements,

- the fact that there are practically no international stabilization agreements for farm products.
In the shorter term, there is a further constraint consisting of the unavoidable slowness with which agricultural production reacts to domestic and international price fluctuations, which leads to an alternating cycle of over- and under-production.

3. Food security

In view of the uncertainties of the international market, the imperatives dictated by security of supply and the constraints characteristic of the agricultural sector, all countries are clearly trying to raise their level of self-sufficiency.

Most of mankind's food is obtained and will continue to be obtained in the country in which it is consumed.

The principle of self-sufficiency has even been recognized by the World Food Conference as a priority general-policy objective for developing countries. The concept of self-sufficiency plays a significant rôle in the context of major international, regional and national options.

It must be stressed, moreover, that there is no contradiction between the importance attached in most countries to the need for a high degree of food self-sufficiency and a vigorous expansion of international trade in food products. Even where the production of certain food products in their final form completely meets national needs, it may still depend on imports for a large proportion of the ingredients required in that production (for example, imports of vegetable proteins for use in animal feed).

4. Need to support agriculture in relation to other sectors

Governments began to support agriculture during the economic depression of the 30s, for otherwise many farms would have disappeared.

Since then, support programmes have been widely employed, in particular to:

- stimulate production especially when there are shortages,
- compensate farmers for the effects of higher input costs, rises in the general cost of living and wage increases obtained by other groups of workers under collective agreements,
- slow the exodus from, and the depopulation of, the countryside,
- protect farmers from the general tendency of producer prices to weaken because the high fixed-costs encourage them to produce as much as possible.
II. Agricultural policy of the EEC

1. Objectives

The EEC has adopted an agricultural policy whose objectives are to:

- raise productivity,
- provide the agricultural population with an equitable standard of living,
- stabilize the markets,
- ensure the food supply,
- provide reasonable prices for deliveries to consumers.

After approximately twenty years of application of this policy, it may be said that the above objectives have, to a considerable extent, been attained.

2. Main features of the economic and social state of agriculture in the EEC

The agricultural situation in the Community is marked by a great variety of soil, weather, structural, marketing and other conditions. The following diagram of the utilized agricultural area clearly shows how crops are distributed in the Community.

In spite of the wide diversity of conditions, it is nevertheless a fact that there is a common development of certain aspects of the economic and social situation of European agriculture, namely:

- relative reduction of the share of agriculture in the totality of economic activities,
- decreased number of farms and smaller agricultural labour force,
- increased productivity and output for all products in spite of a slight overall reduction in the utilization of land,
- persisting gap between agricultural and non-agricultural income,
- large differences of income within the agricultural sector,
- inadequate production and marketing structures,
- continued imbalances between the supply and demand of certain agricultural products.
Distribution of Utilized Agricultural Area and of Final Production in the Community by Crops and Products Respectively in Per Cent

UTILIZED AGRICULTURAL AREA
1976

- Permanent crop land (5%)
  - Vineyards (3%)
  - Olive groves (1%)
  - Fruit trees (1%)
- Arable land (50%)
  - For cereals (29%) of which:
    - Wheat (12%)
    - Barley (10%)
    - Maize (3%)
    - Other (4%)
  - Root crops (4%) of which:
    - Potatoes (1%)
    - Sugar beet (2%)
    - Fodder beet and other (1%)
    - Green fodder (11%)
- Permanent grass- and pasture-land (45%)
- Other vegetables (6%)

FINAL PRODUCTION
1976

- Animal (59%)
  - Eggs (4%)
  - Miscellaneous (1%)
- Vegetable (40%)
  - Grains (10%)
  - Potatoes (5%)
  - Other root crops (3%)
  - Fruit and vegetables (11%)
  - Wine (5%)
  - Olive oil (1%)
  - Other vegetable products (5%)
  - Bovine cattle including calves (16%)
- Miscellaneous (1%)
- Milk (9%)
III. Principal instruments of the Community's Agricultural Policy

The two main instruments of the Community's Agricultural Policy are: pricing and marketing policy and structure policy.

It is through the use of these two instruments that the Community seeks to attain the objectives of its agricultural policy and thus to promote the adjustments required at the levels of the farm, the Community and the international market.

A. Pricing and marketing policy

1. Sphere of application

Support prices apply to approximately 70 per cent of the Community's agricultural production, namely: milk, cereals, rice, sugar, beef and veal, pigmeat, sheepmeat, certain fruits and vegetables, table wine, and fishery products.

Other products, representing approximately 17 per cent of production, such as eggs and poultry, flowers, other wines and other fruits and vegetables, are only accorded certain protective measures at the frontier.

Durum wheat, olive oil, certain oilseeds and tobacco, constituting a little less than 3 per cent of the Community's agricultural production, benefit from compensatory payments, while the remaining products - cotton, flax and hempseeds, hops, silkworms, other seeds, dehydrated fodder, amounting to 0.5 per cent of production - receive lump-sum aid by the hectare or by quantity produced.

Pricing policy pursues several objectives simultaneously, including influencing the supply of products subject to Community organization of the market, while ensuring an equitable level of income for farmers.

This pricing and trading policy for agricultural products has unquestionably led to a remarkable stabilization of the Community's agricultural markets.

The effects may be judged in the light of the development of the Community's agricultural trade with third countries. For a number of years now, the trend has been to decelerate the rise in internal prices and to bring them closer to world prices where the latter are lower.

2. Trade with third countries

The Community, which absorbs 26 per cent of world agricultural imports, is by far the biggest importer of agricultural products. It has also become the world's second largest exporter, although far behind the United States.
Imports of the nine-member Community increased regularly and progressively from ECU 24.2 billion in 1973 to ECU 42.21 billion in 1980, representing a growth of 74 per cent.

Developing and industrialized countries each furnished 46 per cent of these imports, the remaining 8 per cent being accounted for by State-trading countries.

It is worth noting that over the period referred to, the expansion of imports from developing countries has been more dynamic, with a growth of 87 per cent, as against 54 per cent for industrialized countries and 32 per cent for State-trading countries.

EEC exports have also shown very dynamic expansion, rising from ECU 7.5 billion in 1973 to ECU 19.52 billion in 1980, an increase of 160 per cent. They now account for nearly 10 per cent of world agricultural exports.

With a ratio of exports to imports of about 0.3, the Community's agriculture has a very unfavourable influence on the external balance of the EEC. The Community pays a heavy bill to ensure its agricultural supplies. It is also interesting to note that the Community's agricultural trade deficit increased by 50 per cent in absolute terms between 1978 and 1979.

It is further worth noting that EEC exports that do not receive refunds have experienced greater expansion than those receiving refunds. The former accounted for 33.8 per cent of EEC total agricultural exports in 1973, and 36.2 per cent in 1979.

This development of exports unquestionably provides a positive response to the severe problems encountered by the developing countries in meeting their needs for agricultural products and thus serves to improve the world's food security.

Mention need only be made of the fact that the developing regions, which are inhabited by 70 per cent of mankind, furnish only a little more than 30 per cent of world food production and are increasingly dependent for basic foodstuffs on the developed countries. Recent forecasts indicate needs which, in the next few years, may amount to 100 million tons.

Another fact, relating to the animal-feed sector, is demonstrated by the Community's trade with third countries.

Imports of products used mainly for feeding animals have increased spectacularly.
Apart from fodder grains, where the Community's imports are declining (in 1980 the volume imported amounted to 10.7 million tons), imports of products for animal feed rose from 21 million tons in 1974 to 39.5 million in 1980, an increase of 88 per cent.

These figures are indicative not only of the essential rôle of stock-farming in the Community's agricultural economy but also of its importance to third-country suppliers of animal-feed products.

Thus, every year, the Community converts into milk and meat 50 million tons of feed imported from third countries, over and above its internal production of feed products.

The following table provides some examples of such imports by the Community between 1973 and 1980.

<table>
<thead>
<tr>
<th>Products</th>
<th>Provenance</th>
<th>1,000 tons</th>
<th>Share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gluten feed</td>
<td>Third countries of which developing countries</td>
<td>694*</td>
<td>2,596</td>
</tr>
<tr>
<td></td>
<td>of which developing countries</td>
<td>65</td>
<td>101</td>
</tr>
<tr>
<td>Manioc roots</td>
<td>Third countries of which developing countries</td>
<td>1,667</td>
<td>4,866</td>
</tr>
<tr>
<td></td>
<td>of which developing countries</td>
<td>1,433</td>
<td>4,530</td>
</tr>
<tr>
<td>Soyabean oilcakes</td>
<td>Third countries of which developing countries</td>
<td>3,280</td>
<td>7,175</td>
</tr>
<tr>
<td></td>
<td>of which developing countries</td>
<td>937</td>
<td>3,441</td>
</tr>
<tr>
<td>Soyabean oilcakes</td>
<td>TOTAL</td>
<td>12,327</td>
<td>27,391</td>
</tr>
</tbody>
</table>

*1974 figures (1973 not available)

3. The pricing policy does not suffice to solve the problems of such a complex situation

While income support by influencing prices has certainly brought about a general increase in farmers' income, it has been of more benefit to large farms, and this is leading to a growing disparity of incomes within the sector.
The profitability of a farm cannot be ensured solely by higher prices, since there are other factors which often have a greater impact on profitability than prices, such as interest rates, natural factors, weather conditions, a combination of input elements, the size of the farm, etc.

Increased productivity, in combination with the operation of the Community's pricing policy, has resulted in surplus stocks, whose disposal has proved to be very costly. In order to remedy this situation, the Community has, for the last three marketing years, adopted a very firm attitude in fixing prices. This policy of prudence as regards price increases has already resulted in a reduction of guaranteed prices by about 12-13 per cent in real terms.

The Community has also applied, in the case of milk and sugar, the notion of co-liability of producers for costs connected with the disposal of those products on the world market.

Export refunds for sugar are now entirely repaid by producers.

In order more fully to achieve the objectives of its agricultural policy and to deal with the inadequacies of pricing and marketing policy, the Community has adopted an agricultural structure policy.

B. Agricultural structure policy

1. Salient features of agricultural structures in the EEC

A relatively important structural change is taking place in the agricultural sector.

Farms have been gradually increasing in size. In the last ten years, the number of farms has decreased by about 18 per cent, and at the present time more than half of them have less than ten hectares; only 6 per cent are larger than fifty hectares, but they account for 40 per cent of the utilized agricultural area.

The production structure is thus still dominated by small and medium farms.

Increasing the size of farms is becoming more and more difficult owing to the rising price of land and high interest rates. There is consequently not much movement in land ownership.

Moreover, it is also becoming difficult for young people to go into farming because of the high charges associated with the acquisition of a farm.
The overall active agricultural population of the nine-member Community has suffered a serious exodus: from 17 million persons at the beginning of the 1960s, there were only 7.7 million at the end of the 1970s.

That exodus took place largely when the economy was prosperous. At present, the reduction in the number of farm workers has slowed to about an annual rate of 2 to 3 per cent.

As to investment, the capital needed to acquire an additional unit of production is much higher (more than 100 per cent) than in the industrial sectors. The debt burden of farmers is also rapidly increasing, particularly in the case of small farms.

The agricultural structure policy introduced by the Community seeks to respond to the problems faced by farmers and, within the means available to it, its structure policy is contributing all it can to the correction of certain structural imbalances of the market which are characterized by surplus production.

2. The general directives of 1972

The real common policy started with the implementation of three directives which, taken together, had as their principal aim to develop modern farms capable, by the adoption of rational production methods, of ensuring an equitable income and satisfactory working conditions for the farmers concerned.

That policy consists of:

- a system of selective investment aids for farmers who undertake to carry out a development plan for their farm,

- the introduction of a series of measures designed to encourage the cessation of agricultural activity and the use of the area thus freed for purposes of structural improvement,

- the granting of aid to improve and expand a system of socio-economic information and vocational training, or of retraining for persons working in agriculture.

The directives deal with:

- modernization of farms,

- encouragement of cessation of agricultural activity and diversion of agricultural areas to purposes of structural improvement,

- socio-economic information and the acquisition of professional skills by persons working in agriculture.
3. **Agriculture in mountain and other disadvantaged zones**

The problems posed by structural adjustment vary greatly in nature, form and seriousness, depending on the many different regions of the EEC.

In 1975 the Community had to adopt a specific approach in certain regions permanently faced with natural obstacles.

This approach consists of a special aid system, in particular in the form of compensatory allowances whose amounts are determined by the natural handicaps which complicate the work of farmers in mountainous and other particularly disadvantaged zones.

4. **Measures in favour of Mediterranean zones**

Considering that agriculture is of vital importance to the economy of a region and that it is indispensable for soil conservation, the Community, in 1979, introduced a series of measures in favour of Mediterranean zones consisting of:

- the financing of special measures in the Italian Mezzogiorno, and in the French regions of Corsica, Languedoc and Midi-Pyrénées, dealing with:

  - processing and marketing of agricultural products,
  - irrigation,
  - restructuration and reconversion of vineyards, improvement of public facilities in rural areas,
  - flood protection,
  - development of sylviculture,
  - development of agricultural advisory services.

5. **Recent structural measures**

Additional social-structure measures were adopted by the Council on 30 June 1981.

They concern:

- modification of the social-structure directives of 1972,
- limitation of investment aid for certain surplus crops,
- special measures for certain disadvantaged areas and integrated regional actions.
Structural developments

In Finland structural adjustment is a phenomenon which has been going on spontaneously and without direct government intervention during the century and more for which there are statistics. In the early stages this meant industrialization with the share of primary production decreasing in favour of manufacturing, construction and related activities. Later on the share of industry continued to grow but at a slower rate, and in recent decades the production of services has been the most dynamic area of the economy (chart A).

A. FINLAND: GROSS DOMESTIC PRODUCT BY INDUSTRIES

The marked changes in the production structure have continued in the post-war period. Transfer gains due to diversification of output have contributed significantly to the growth of gross domestic product. The shift away from agriculture and forestry has mainly benefitted the service sector. In
Finland, like in other mature economies, immaterial production now accounts for more than half of aggregate output. The relative importance of manufacturing has grown slowly but consistently.

1. Finland: Value added in basic values by kind of economic activity, per cent

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture, forestry, fishing</th>
<th>Mining and quarrying</th>
<th>Manufacturing</th>
<th>Electricity, gas and water</th>
<th>Construction</th>
<th>Trade, restaurants and hotels</th>
<th>Transport and communication</th>
<th>Other services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>19</td>
<td>1</td>
<td>25</td>
<td>3</td>
<td>9</td>
<td>11</td>
<td>8</td>
<td>24</td>
<td>100</td>
</tr>
<tr>
<td>1970</td>
<td>13</td>
<td>1</td>
<td>27</td>
<td>3</td>
<td>9</td>
<td>11</td>
<td>8</td>
<td>28</td>
<td>100</td>
</tr>
<tr>
<td>1980</td>
<td>9</td>
<td>1</td>
<td>29</td>
<td>3</td>
<td>7</td>
<td>12</td>
<td>8</td>
<td>31</td>
<td>100</td>
</tr>
</tbody>
</table>

Much of the trend towards an increasingly diversified industrial structure has taken place within sectors and is not evident from the aggregate data in table 1. Thus, in manufacturing the shares of the traditional wood-based industries have diminished and those of the metals and engineering, chemical, and consumer goods industries have expanded. This has been evident also in recent years. The output of the metals and engineering and other non-traditional industries was more resilient during the downturn of economic activity in the middle of the 1970s and advanced faster during the surrounding periods of prosperity than did the production of the wood, pulp and paper industries (chart B).
Trade and trade policy

As a small industrialized country, Finland is greatly dependent on international trade. In order to secure needed imports and to create for Finnish exports equal competitive conditions, Finland has based its trade policy on the concept of an open economy. In 1980 total exports as well as imports of goods and services accounted for more than one third of gross domestic product. The world-wide lowering of import barriers has also in Finland facilitated the growth of foreign trade. Finland acceded to the General Agreement on Tariffs and Trade (GATT) in 1950 and has actively participated in the numerous multilateral GATT negotiations aiming at the lowering of tariffs and the codification of international trading rules. When the economic integration process accelerated in Europe, Finland had to react. It became an associate member of the European Free Trade Association (EFTA) in 1961, and by the end of 1967 the customs duties on industrial goods had been abolished in trade between the EFTA countries. In 1973 Finland concluded free trade agreements with the European Economic Community (EEC) and the European Coal and Steel Community (ECSC). According to these agreements, the tariffs on industrial goods were mutually abolished in mid-1977, except tariffs on products of certain sensitive industries, where the longest transition periods extend to 1984.

Finland has concluded with the USSR and a number of East European socialist countries, as well as with several developing countries, a series of commercial, economic, industrial and technical co-operation agreements, which have contributed to the expansion of trade between Finland and these countries. Finland extends preferential tariff treatment to 130 developing countries under the Generalized System of Preferences (GSP).

The various liberalization schemes have led to a drastic reduction in the overall level of import duties and levies.

2. Finland: Import duty and import levies as percentage of total imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-1960</td>
<td>16.5</td>
</tr>
<tr>
<td>1961-1965</td>
<td>11.0</td>
</tr>
<tr>
<td>1966-1970</td>
<td>5.5</td>
</tr>
<tr>
<td>1971-1975</td>
<td>2.7</td>
</tr>
<tr>
<td>1976-1980</td>
<td>1.7</td>
</tr>
<tr>
<td>1980</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Finnish merchandise exports consist mainly of manufactures. Forest industry products have had and still have a central position, but products of the metal and engineering industries have continually gained in importance.
The chemical, textile and clothing, ceramic and art glass industries have increased their foreign deliveries in hard international competition. Within most branches there has been a trend towards higher degree of processing with resulting increased value added content of exports.

3. Finnish exports by industries, per cent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood industry</td>
<td>27</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Paper industry</td>
<td>42</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Metal and engineering industry</td>
<td>15</td>
<td>25</td>
<td>29</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>4</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>Other industries</td>
<td>12</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The composition of Finnish imports has traditionally been fairly stable. The sharp rise in oil prices since 1973 has naturally increased the shares of crude oil and fuels in total imports. The slightly falling trend in the shares of investment goods and consumer goods may be interpreted as due to the increasing diversification of the Finnish production structure.

4. Finnish imports by use of goods, per cent

<table>
<thead>
<tr>
<th>Category</th>
<th>1960</th>
<th>1970</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>2</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Other raw materials and production necessities</td>
<td>49</td>
<td>56</td>
<td>46</td>
</tr>
<tr>
<td>Fuels and lubricants</td>
<td>8</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Investment goods</td>
<td>25</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>16</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

As to the geographical composition of trade, the share of the EFTA area and particularly Sweden has increased most over the long term. However, after the oil price rises since 1973 the Soviet Union, which accounts for the major part of Finland's trade with the countries of the Council of Mutual Economic Assistance (CMEA), became Finland's largest trade partner, as two thirds of oil and part of coal are imported from the USSR. Since over
one quarter of oil imports originate in OPEC countries, their share in total imports has risen sharply in recent years. Finland has also increased its exports to the OPEC countries (Chart C).

C. REGIONAL DISTRIBUTION OF FINLAND'S COMMODITY TRADE, PER CENT

1EFTA and EC according to 1980 membership.

The integration of markets in Western Europe following the establishment of free trade in industrial products within EFTA and with the European Community has been instrumental in bringing about the considerable expansion and diversification of exports in the last two decades. The growth of exports, in turn, has been the main reason for the comparatively fast rate of structural change in the Finnish economy as a whole.

Government policies

Finland is an open market economy. The economic system is based on the principles of free enterprise and free competition. The Government can prohibit restrictions of competition with harmful effects.
In Finland industrial policy aims mainly at the creation and development of favourable general conditions for industrial performance. The Government does not explicitly try to influence the channelling of resources into certain branches, for instance those that promise to show high growth and effective resource utilization. This is because all industrial sectors may include promising activities at the firm or product level.

The contribution of government agencies to decisions concerning the direction of production has consisted mainly of studies outlining the present and probable future roles of various industries. These studies provide analyses of the current economic situation and developments in broad sectors as well as information on major current or expected constraints and problems.

Only in very few cases have there been interventions in the adjustment process from outside industry. These have mostly been justified by a need to prolong the time of adjustment in order to maintain employment and avoid grave social disallocations. The defensive industrial policy measures introduced in recent years have been modest in terms of volume, temporary and short-term. No action concerning industrial sectors as a whole has been taken. Nor has the State in recent years taken over individual enterprises in economic difficulties.

Furthermore, there is normal State participation in efforts to improve the overall conditions of economic activity, in conformity with internationally sanctioned norms. The Government does not supply sectorial aids, but only general incentives. These programmes comprise regional measures in favour of development areas so designated by law, export promotion in the form of assistance for market research and establishment of private sales organizations abroad as well as for participation in trade fairs held abroad, and various supports for product development.

Evaluation of the adjustment process

In Finland with its market economy and open foreign trade system it is a fairly generally held conception that the relative lack of direct government intervention in the activities of enterprises has benefitted structural adjustment and foreign trade. It is thought that the high degree of self-reliance that this policy stance entails is one of the reasons for the relatively favourable development of productivity and profitability in recent years. As firms have not been able to rely on public support, they have been forced to compensate for increased domestic and foreign competition by rationalization, specialization and intensified sales efforts abroad, which has had a beneficial effect on the external balance. It is the opinion of all important economic interest groups that the key to continued prosperity is the maintenance of the international competitiveness of Finnish products.
Hong Kong follows a policy of free trade and free enterprise. Other than the provision of infrastructural facilities, the Hong Kong Government's principal rôle in the economy is to ensure a stable framework in which trade and industry can function efficiently and effectively with minimum of interference. There is no protection or subsidization of industries. All industries in Hong Kong have to make adjustments themselves in order to remain competitive.

2. Hong Kong relies on the GATT as the cornerstone of its commercial policy. It maintains no control over its exports, imports and re-exports other than those arising from its international obligations or exercised for the purpose of health, safety and security.

3. Manufacturing has been and remains the mainstay of Hong Kong's economy. However, the relative importance of the manufacturing sector has declined in recent years in favour of the financial sector, as can be seen from the following table:

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Contributions to Hong Kong's G.D.P. (%)</th>
<th>Share of work force employment (% of total work force)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary sectors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture and fishing</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Secondary sectors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>34.8</td>
<td>35.4</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>18.1</td>
<td>28.3</td>
</tr>
<tr>
<td>Building and construction</td>
<td>4.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Tertiary services sectors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trades,</td>
<td>53.3</td>
<td>61.1</td>
</tr>
<tr>
<td>and restaurants and hotels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, storage and</td>
<td>19.5</td>
<td>21.1</td>
</tr>
<tr>
<td>communications</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Financing, insurance, real</td>
<td>17.5</td>
<td>17.9</td>
</tr>
<tr>
<td>estate and business services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community, social and personal</td>
<td>18.9</td>
<td>17.0</td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities not adequately</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>defined</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. The relative decline of the manufacturing sector can in part be attributed to Hong Kong's natural environmental constraints, particularly the severe shortage of land. However, external factors such as elimination of Commonwealth Preference and discrimination against Hong Kong in GSP and the intensification of restraint on the most important element of exports, namely, textiles and clothing, have adversely affected the rate of growth of Hong Kong's exports. The last of these factors is a reflection of a lack of structural adjustment in the overseas markets concerned.
(a) Pakistan's economy has undergone some structural change during the recent past. These changes are reflected in the growth rate and composition of GDP and trade and balances-of-payments position.

(i) The growth rate in GDP on constant prices during 1976-1977 to 1980-1981 is given below:

**GDP AT CONSTANT FACTOR COST - 1975-1976**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (US$ million)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-1977</td>
<td>4,215</td>
<td>2.52</td>
</tr>
<tr>
<td>1977-1978</td>
<td>4,526</td>
<td>7.4</td>
</tr>
<tr>
<td>1978-1979</td>
<td>4,736</td>
<td>4.7</td>
</tr>
<tr>
<td>1979-1980</td>
<td>5,066</td>
<td>7.0</td>
</tr>
</tbody>
</table>

(ii) The share of agriculture, manufacturing and services sectors in GDP during 1976-1977 to 1980-1981 is given below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture:</td>
<td>1,413.9</td>
<td>1,450.9</td>
<td>1,493.8</td>
<td>1,597.4</td>
<td>1,667.9 (31.1)</td>
</tr>
<tr>
<td>% Share:</td>
<td>(33.5)</td>
<td>(32.1)</td>
<td>(31.5)</td>
<td>(31.5)</td>
<td></td>
</tr>
<tr>
<td>Manufacturing:</td>
<td>632.1</td>
<td>690.2</td>
<td>721.7</td>
<td>790.1</td>
<td>862.8 (16.1)</td>
</tr>
<tr>
<td>% Share:</td>
<td>(15.0)</td>
<td>(15.2)</td>
<td>(15.2)</td>
<td>(15.6)</td>
<td></td>
</tr>
<tr>
<td>Services:</td>
<td>309.1</td>
<td>335.2</td>
<td>354.5</td>
<td>374.8</td>
<td>396.4 (7.4)</td>
</tr>
<tr>
<td>% Share:</td>
<td>(7.3)</td>
<td>(7.4)</td>
<td>(7.5)</td>
<td>(7.4)</td>
<td></td>
</tr>
</tbody>
</table>
(iii) Changes in the balance of trade during 1976-1977 to 1980-1981 is as under:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
<th>Exports on percentage of imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-1977</td>
<td>1,140.8</td>
<td>2,324.5</td>
<td>(-) 1,183.7</td>
<td>49.0</td>
</tr>
<tr>
<td>1977-1978</td>
<td>1,311.2</td>
<td>2,809.6</td>
<td>(-) 1,498.4</td>
<td>46.7</td>
</tr>
<tr>
<td>1978-1979</td>
<td>1,709.6</td>
<td>3,675.6</td>
<td>(-) 1,966.0</td>
<td>46.5</td>
</tr>
<tr>
<td>1979-1980</td>
<td>2,364.7</td>
<td>4,740.3</td>
<td>(-) 2,375.6</td>
<td>49.9</td>
</tr>
<tr>
<td>1980-1981</td>
<td>2,957.5</td>
<td>5,408.4</td>
<td>(-) 2,450.9</td>
<td>54.7</td>
</tr>
</tbody>
</table>

(iv) Export earnings have shown a remarkable recovery during the years 1976-1977 to 1980-1981. The growth of exports is indicated below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Growth rate (% Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-1977</td>
<td>1,140.8</td>
<td>0.4</td>
</tr>
<tr>
<td>1977-1978</td>
<td>1,311.2</td>
<td>14.9</td>
</tr>
<tr>
<td>1978-1979</td>
<td>1,709.6</td>
<td>30.4</td>
</tr>
<tr>
<td>1979-1980</td>
<td>2,364.7</td>
<td>38.8</td>
</tr>
<tr>
<td>1980-1981</td>
<td>2,957.5</td>
<td>25.0</td>
</tr>
</tbody>
</table>

(v) The composition of exports has changed during the years 1976-1977 to 1980-1981. The following table indicates the economic category-wise exports:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Primary commodities:</td>
<td>466.9 (40.9%)</td>
<td>468.1 (35.7%)</td>
<td>552.9 (32.3%)</td>
<td>993.8 (42.0%)</td>
<td>1,295.4 (43.8%)</td>
</tr>
<tr>
<td>(ii) Semi-manufactures:</td>
<td>190.7 (16.7%)</td>
<td>193.1 (14.7%)</td>
<td>352.4 (20.6%)</td>
<td>355.5 (15.0%)</td>
<td>335.3 (11.3%)</td>
</tr>
<tr>
<td>(iii) Manufactured goods:</td>
<td>483.2 (42.4%)</td>
<td>650.0 (49.6%)</td>
<td>804.3 (47.0%)</td>
<td>1,015.4 (43.0%)</td>
<td>1,326.8 (44.9%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,140.8 (100%)</td>
<td>1,311.2 (100%)</td>
<td>1,709.6 (100%)</td>
<td>2,364.7 (100%)</td>
<td>2,957.5 (100%)</td>
</tr>
</tbody>
</table>
(vi) The growth in imports and their composition is indicated below:

**IMPORT GROWTH RATE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Growth rate (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-77</td>
<td>2,324.5</td>
<td>12.4</td>
</tr>
<tr>
<td>1977-78</td>
<td>2,809.6</td>
<td>20.9</td>
</tr>
<tr>
<td>1978-79</td>
<td>3,675.6</td>
<td>30.8</td>
</tr>
<tr>
<td>1979-80</td>
<td>4,740.3</td>
<td>29.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>5,408.4</td>
<td>14.1</td>
</tr>
</tbody>
</table>

**COMPOSITION OF IMPORTS (ECONOMIC CATEGORYWISE)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods:</td>
<td>368.8 (15.9%)</td>
<td>561.1 (20.0%)</td>
<td>792.1 (21.6%)</td>
<td>757.6 (16.0%)</td>
<td>785.4 (14.5%)</td>
</tr>
<tr>
<td>Raw material for consumer goods:</td>
<td>924.0 (39.8%)</td>
<td>1,113.5 (39.6%)</td>
<td>1,557.2 (42.4%)</td>
<td>2,003.5 (42.3%)</td>
<td>2,710.3 (50.1%)</td>
</tr>
<tr>
<td>Raw material for capital goods:</td>
<td>147.8 (6.3%)</td>
<td>194.0 (6.9%)</td>
<td>218.2 (5.9%)</td>
<td>294.5 (6.2%)</td>
<td>409.6 (7.6%)</td>
</tr>
<tr>
<td>Capital goods:</td>
<td>883.9 (38.0%)</td>
<td>941.0 (33.5%)</td>
<td>1,108.1 (30.1%)</td>
<td>1,684.7 (35.5%)</td>
<td>1,503.2 (27.8%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,324.5 (100%)</td>
<td>2,809.6 (100%)</td>
<td>3,675.6 (100%)</td>
<td>4,740.3 (100%)</td>
<td>5,408.4 (100%)</td>
</tr>
</tbody>
</table>

(b) Government policies towards structural adjustment:

The Government has adopted a package of policies to sustain agriculture production, create conditions conducive to industrialization and development, boost exports, stabilise prices and ensure financial, budgetary and monetary discipline. It has adopted vigorous programmes in support of raising
agriculture productivity and close monitoring of the progress of crops during their gestation period. The programmes include adequate and timely supply of inputs, improved irrigation facilities, institutional credit and incentive support prices for major crops like wheat, rice, cotton and sugar cane. In the industrial sector the policy is to rehabilitate sick industrial units, attain high production and productivity, attract investment, facilitate establishment of basic and sophisticated industries and restore private investment and public sector efficiency. For this purpose fiscal incentives and concessions have been given, sanctioning procedures simplified, industrial financial institutions strengthened and import of raw material and machinery required for industry liberalized. Measures have also been adopted to improve the management and financial performances of the public enterprises which have yielded fruitful results as production and sale of these enterprises increased by 30 per cent last year.

Government has also initiated a policy and programme of Islamisation of the economy. This process was initiated in 1979-80 with the introduction of Zakat as a compulsory levy, the elimination of interest from operations of certain financial institutions like House Building Finance Corporation, Investment Corporation of Pakistan, National Investment Trust etc., and interest-free loan to farmers. These institutions now operate on the basis of hire-purchase, mark-up and profit and loss sharing. The commercial banks have also introduced profit and loss sharing deposit accounts. Interest-free loans (Qarse Hasna) are also being given to deserving students. Certain legislative measures have also been introduced to facilitate the issue and usage of financial instruments which are in accord with the Islamic Law (Sharia) such as Modarbas and Participation Term Certificates.

A number of measures have been adopted to expand exports, attract remittances and contain imports. The measures adopted to boost exports include duty draw-back on imported raw materials, tax concession on income from exports, export financing at reduced interest rates, free import of raw materials and machinery for balancing, modernization and replacement required by export industries, compensatory rebates on exports and streamlining the government machinery. On the import side the policy has been of gradual liberalization particularly of raw materials and essential goods.
Import substitution is being encouraged also to lessen the payments burden. Near self-sufficiency has been achieved in wheat and productive capacity in other major import areas, like fertilizers, cement and iron and steel is being expanded substantially. Search for oil, which accounted for 28 per cent of total imports in 1980-81 is being geared up. The remittances from Pakistanis living abroad are being further encouraged.

The impact of the Government policies and measures is reflected in the growth trend witnessed during the past years. As described earlier GDP has grown at 6.2 per cent per annum (1977-80), exports by 25.0 per cent and imports by 14.1 per cent during 1980-81.

High growth rate in exports is mainly due to rice and cotton which account for 62.1 per cent of total export earnings in 1980-81. Export gains were also mainly due to high prices rather than increase in volume of exports. Even in some manufactured items there is a decline in volume of exports during 1980-81 as compared with 1979-80, e.g. cotton cloth (-) 44.9 million square metres; leather (-) 1.4 million square metres; petroleum and petroleum products (-) 31.5 thousand m. tons; guar and guar products (-) 35.9 thousand m. tons; tobacco (excluding cigarettes) (-) 1.9 thousand metric tons; feeding stuff for animals (-) 45.8 thousand m. tons; leather gloves (-) 1.7 million pairs; and canvas footwear (-) 1.3 million pairs. This decline is to some extent due to restrictive practices adopted by developed countries which are the main markets for such products.
STRUCTURAL ADJUSTMENT IN SINGAPORE

1. Since independence the Singapore economy has evolved through three broad structural changes. From a traditional entrepôt trade economy in the early 1960s, Singapore developed into a trading and manufacturing-based economy in the 1970s. Singapore has now taken another important step to restructure its economy by moving into high value-added, skill and technology intensive industries.

2. Given its advantageous location and well developed port and shipping facilities, entrepôt trade was the mainstay of Singapore's economy in the 1950s. Singapore was a trading intermediary, redistributing the raw materials of the region to the rest of the world and in turn supplying the region with manufactured goods from the industrialized countries.

3. With self-government in 1959 Singapore, like all developing countries, embarked on an industrialization programme aimed mainly at import substitution. A shift in the industrialization programme from import substitution industries to export-oriented and labour-intensive industries was made in the mid-1960s. This deliberate policy of encouraging export-oriented and labour-intensive industries such as textiles, shoes, footwear, furniture and electronics was adopted to meet the constraints of a small domestic market and the massive unemployment brought about by the British pull-out from the Singapore naval base. The pull-out caused a displacement of some 80,000 Singaporeans employed as civilian workers on the naval base.

4. By the mid-1970s unemployment was no longer a problem in Singapore. Moreover, Singapore began to lose its comparative advantage as a source of cheap unskilled labour brought about in part by the pursuit of similar industrialization programmes in countries such as the Republic of Korea, Hong Kong, Taiwan, India and China. There was also a rising trend of protectionism in the industrialized countries against textile products and the mass consumer goods mentioned above.

5. A decision was taken in 1979 to restructure the Singapore economy. A deliberate policy was adopted to move out of low value-added industries to high value-added, skill and technology-intensive industries producing products such as computers, aircraft components, precision equipment, pharmaceutical products and industrial electronic equipment. The objective of upgrading the economy was pursued through the use of higher wages thus compelling a more efficient use of scarce, valuable manpower and facilitating investments in
the desired high-value and high-productivity industries. At the same time supportive measures such as fiscal incentives and incentives for research and development were introduced. Renewed emphasis was also given to the policy of creating a pool of highly trained technical and professional manpower.

6. As a result, existing factories producing labour-intensive products took steps to reduce manpower, mechanize production and upgrade the value of their products. However, some factories had to close down and labour temporarily displaced during the transitional period. But these were recognized as necessary short-term harsh realities in the effort to restructure the economy. The restructuring programme also involved the promotion of the services sector, in particular the knowledge-intensive industries required to raise technology and productivity in the industrial sector. Thus services and technology formed the twin pillars of the restructuring programme in Singapore.

7. As a result of these structural adjustments the product mix and composition of Singapore's foreign trade have changed in the past twenty years. Traditional products such as food, beverages and tobacco have declined in importance. In value terms, the share of such exports as a percentage of total exports fell from 15.3 per cent in 1960 to 13.1 per cent in 1970 and 5.2 per cent in 1980. On the other hand, the share of manufactured products increased significantly. Manufactured products such as textiles, footwear and electronics dominated the export trade. By 1980 Singapore's export trade in manufactured goods included a significant proportion of capital-intensive products. At the same time domestic demand for machinery and equipment as well as industrial raw materials increased, brought about by investments in new industries. Trade in mineral fuels continued to be important partly as a result of the increases in oil prices. These changes in Singapore's trade are shown in Table 1.
### Table 1: Singapore's Trade by Broad Commodity Sections for 1960, 1970 and 1980

<table>
<thead>
<tr>
<th>Commodity section</th>
<th>% of total exports 1960</th>
<th>% of total exports 1970</th>
<th>% of total exports 1980</th>
<th>% of total imports 1960</th>
<th>% of total imports 1970</th>
<th>% of total imports 1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>15.3</td>
<td>13.1</td>
<td>5.2</td>
<td>18.3</td>
<td>14.3</td>
<td>6.2</td>
</tr>
<tr>
<td>Crude materials, animal and vegetable oils, and chemicals</td>
<td>48.7</td>
<td>35.7</td>
<td>17.3</td>
<td>41.4</td>
<td>18.2</td>
<td>13.8</td>
</tr>
<tr>
<td>Mineral fuels</td>
<td>11.3</td>
<td>17.3</td>
<td>28.9</td>
<td>14.5</td>
<td>13.5</td>
<td>29.0</td>
</tr>
<tr>
<td>Manufactured goods, machinery and equipment, and other manufactures</td>
<td>18.6</td>
<td>25.1</td>
<td>41.3</td>
<td>23.9</td>
<td>51.9</td>
<td>49.6</td>
</tr>
<tr>
<td>Others</td>
<td>6.1</td>
<td>8.8</td>
<td>7.3</td>
<td>1.9</td>
<td>2.1</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

8. These structural adjustments have also affected Singapore's trade by regions. In the early 1960s, Singapore's major trading partners were the countries of South-East Asia. By 1980 trade with South-East Asia remained significant. The formation of ASEAN in 1967 with its objectives of regional integration and economic co-operation reinforced the importance of South-East Asia for Singapore.

9. However, the industrialized countries serving as important suppliers of capital goods have also benefited significantly from the structural adjustments in Singapore. With the increase in demand for capital goods, Japan and the United States have emerged as important trading partners for Singapore. Table 2 shows Singapore's trade by regions and trading blocs for the years under consideration.
### Table 2: Singapore's Trade by Regions and Trading Blocs for 1960, 1970 and 1980

<table>
<thead>
<tr>
<th>Country of origin</th>
<th>% of total exports</th>
<th>% of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>South-East Asia</td>
<td>39.6</td>
<td>34.9</td>
</tr>
<tr>
<td>North-East Asia</td>
<td>9.7</td>
<td>14.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>West Asia</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>EEC</td>
<td>18.1</td>
<td>15.6</td>
</tr>
<tr>
<td>EFTA</td>
<td>1.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Other parts of Western Europe</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Socialist countries of Eastern Europe</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>North America</td>
<td>8.4</td>
<td>12.3</td>
</tr>
<tr>
<td>LAFTA</td>
<td>3.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Oceania</td>
<td>5.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Others</td>
<td>2.7</td>
<td>4.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

10. The Singapore experience has shown that structural adjustments take time and may be difficult in the short term. However, Singapore believes that the key to its long-term economic well-being and that of the international economy is free trade and structural adjustment. Short-term sacrifices are therefore necessary. In order to achieve high growth, in an era of rising prices, inflation and protectionism, Singapore will continue to liberalize its imports and restructure its economy as appropriate.
COMMERCIAL POLICY AND SECTORAL ADJUSTMENT IN SPAIN

Major structural changes in the world economy since the energy crisis have implied substantially declining demand by key sectors of the economy. In addition, the emergence of newly industrialized countries exporting certain manufactures produced with low-cost labour has also had a strong impact on some sectors of Spain's industry by reducing Spain's exports to third countries and at the same time encouraging Spanish imports of such manufactures.

In these circumstances, countries have taken various adjustment measures designed to alleviate the effects of these new developments and where possible to adapt production structures to the new International Division of Labour. In the case of Spain, adjustment measures have been considerably delayed in comparison to other countries because of the political situation resulting from the end of one régime and the long and complicated process of establishing a new régime.

The first important measures were in the field of fiscal, monetary and income policy, and were designed to remedy the serious situation in regard to inflation, unemployment and external deficit resulting from the energy crisis and further aggravated, as already mentioned, by the delay in taking adjustment measures.

Since the measures taken in regard to commercial policy and sectoral adjustment are very recent, it is not yet possible to evaluate their effects. The measures taken in these two areas are reported below.

**Liberalization measures**

These comprise a set of measures adopted in two areas, starting in 1978, representing a resumption of external sector liberalization which had been totally suspended since the beginning of the economic crisis in 1974 - at which time the temporary customs duties and liberalization lists introduced in earlier years had been revoked. The measures took two forms: extension of the list of liberalized goods and establishment of temporary tariff reductions.

**Progress toward trade liberalization**

In the course of 1978 and 1979, more than 200 tariff headings and sub-headings were liberalized; until then, most of them had been subject to the global quota régime. Having regard to the number of tariff headings involved, progress in those two years was greater than in the earlier liberalization period at the beginning of the 1960s. The relevant
implementing provisions were announced in Resolutions of the Directorate-General for Tariff Policy and Imports that were adopted in January 1977 (three headings), February 1978 (thirty headings), July 1978 (fifty headings) and April 1979 (126 items).

Consumer goods, accounting for about one fifth of these lists, were mostly included in the April 1979 list. Those which represent significant import figures are in a series of statistical tariff items that can be grouped under seven headings:

- glassware
- manufactures of pearls and precious stones
- tools
- radio and television sets (black and white)
- motor vehicles
- magnetophones and videoscope sets
- toys.

The above indications are purely illustrative and only some of the goods falling within those general designations were in fact liberalized on that date.

These seven groups together represented approximately 8 per cent of consumer goods as a whole in 1979, so that a significant share of trade in products of this kind has been liberalized.

Temporary tariff reductions

Temporary duty rates lower than those normally applicable, which had been introduced on a number of occasions in the 1960s and early 1970s, were re-established in 1978 and with various changes, have continued in effect until the present time. This put an end to a period of more than three years, coinciding with the beginning of the economic recession, when the general customs duties had been in effect.

Temporary tariff reductions were introduced in July 1978 and extended from one quarter to the next, until April 1979 when they were replaced by a system of reduction by categories, and the applicable rates were adjusted slightly in April 1980. The table below shows the actual reductions for four levels of nominal protection. As may be seen, the reduction has been progressive, with a greater impact on the sectors and products benefiting from a higher level of protection, and the rate of reduction was increased in April 1979. The new system introduced then represents a higher rate of tariff reduction.
TARIFF REDUCTIONS (1978-1980)

<table>
<thead>
<tr>
<th>Rates normally applicable</th>
<th>Effective percentage reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RD July 1978</td>
</tr>
<tr>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>30</td>
<td>13.3</td>
</tr>
<tr>
<td>40</td>
<td>15</td>
</tr>
</tbody>
</table>

Sectoral adjustment measures

The strategy followed throughout the recession for restructuring the Spanish productive sector has been oriented away from individualized action and toward treatment at the sector level, negotiated on a tripartite basis (administration, undertakings and trade-union central offices). This new approach implied the need for an appropriate legal framework allowing objective and homogeneous action to be taken at the sector level. Royal Decree-Law No. 9/1981 of 5 June on industrial reconversion was adopted to that end. By way of innovation, it provides that the corresponding measures are to be taken after establishment of a reconversion plan negotiated jointly by employers' associations, trade-union central offices and representatives of the national administration.

The plan includes fiscal, financial and labour measures.

Under the second transitional provision of the Royal Decree-Law, the above-mentioned measures were applicable to sectors already recognized as being in the process of reconversion (iron and steel industry, electrical household appliances such as washing machines, refrigerators, etc. and special steels). Subsequently, two additional sectors were declared to be in the process of reconversion and covered by Royal Decree-Law No. 9/1981: electrical motor-vehicle components, and textiles.

A. Royal Decree No. 2200/1980 of 26 September on industrial reconversion of the electrical household appliances sector (washing machines, refrigerators, etc.).

The reconversion programme for this manufacturing sector comprises a set of measures that are applicable provided the beneficiary undertakings participate in entrepreneurial associations or groupings.
The main objectives of the reconversion programme, as set forth in Article 2, are the following:

- To adjust the productive dimension of undertakings so as to allow optimum use of economies of scale, increased productivity and external competitiveness.

- To promote technological development and product standardization.

- To foster the economic, social and professional promotion of workers.

The main benefits available to undertakings engaged in reconversion are in the tax and credit areas. The credit measures comprise priority access to government credit, and access to other financing sources. The tax measures include a reduction of up to 95 per cent in the customs duties, internal charges compensatory tax and turnover tax applicable to imports.

All these benefits are granted for a period of five years. Thereafter the sector will have to face prevailing market conditions. Since the Royal Decree took effect, four holdings of undertakings have been set up, grouping a large part of the sector.

B. Royal Decree-Law No. 2206/1980 of 3 October on industrial reconversion of the special steels sector. A public company of undertakings in this sub-sector has been established to carry out reconversion, with a basic capital of Ptas 10,000 million put up by the central administration, the Basque Autonomous Community and undertakings in the sub-sector.

Reconversion is envisaged from the overall aspect, comprising a phase of financial reorganization and another of restructuring in the strict sense for which a five-year period is scheduled.

The initial objective of the company will be reconversion of the sub-sector with the following aims:

- To carry out financial reorganization.

- To adjust production to the new requirements of demand, in terms of quantity and quality.

- To improve productivity.

To that end the following instrumental objectives have been established: study and determination of demand, organization of supply, improved marketing, and encouragement for the industrial concentration process.
C. Reconversion of the integrated iron and steel sector.

A series of measures were taken before the Royal Decree on reconversion was adopted:

In 1979, a reorganization and restructuring programme was drawn up for this sub-sector, based on a comparison with the situation in other countries and establishing two lines of action: a reorganization programme in the short-term with the basic objectives of eliminating existing financial deficits, encouraging self-financing and reducing financial burdens, and a long-term restructuring programme designed to balance the potential of existing plants, without increasing capacity (except where necessary to increase productivity) and to manufacture products that are more highly finished and represent a greater technological content; at the same time, to save energy and to safeguard and conserve the environment and, if necessary, close down obsolete installations.

The above-mentioned agreement covers aspects regarding financial reorganization of firms, staffing, investments, cost-reduction programmes, wages, working hours, and provides for the establishment of a follow-up committee.

As regards wages, a 9 per cent increase was granted in 1981 with provision for a review based in principle on 70 per cent of the consumer price index forecast for 1982. In 1982 and in 1983 working hours will be cut by twenty-four hours each year, and the work force is to be reduced by 5,800 jobs through early retirement and voluntary departures.

Provision has been made for an investment programme of nearly Ptas 130,000 million.

On 20 May, the Official Gazette published Royal Decree No. 878/1981 establishing official measures for reconversion and constituting State action to implement the commitments undertaken in those instruments. The basic objectives set in that Royal Decree are: financial reorganization of firms, reduction of the wage-cost element in invoicing to the levels existing in European iron and steel industries, and implementation of programmes to reduce operational unit costs and improve yield through a commercial policy similar to that of ECSC.

The period covered by the Plan will run until 31 December 1985.

The Plan provides for:

- Financial measures.
- Commercial policy measures.
The ECSC price system has been established for raw materials and products of the iron and steel industry (Cabinet Order of 17 September 1981).

The labour measures correspond to the agreements signed on 6 May 1981 by the parties concerned and mainly concern economic conditions and financing sources for workers leaving their jobs as a consequence of the Reconversion Plan.

D. Royal Decree No. 2010/1981 of 3 August on reconversion of the textile sector. The Textile Reconversion Plan is basically designed to adjust structures of the Spanish textile and clothing industries to the requirements of the 1980s, making the sector competitive at international level so that these industries can continue to be an important element for generating wealth and employment.

The Plan covers the textile sector, man-made fibre production and the clothing industries.

Measures under the Plan will cover the period until 31 December 1986.

The Plan establishes objectives based on an aggressive commercial approach (fashion, innovation, trade-marks policy, etc.), in order to mobilize all possibilities for adapting the Spanish industry to market requirements, the emphasis being on quality or high added-value, particularly in the export field; it aims to improve entrepreneurial, productive and financial structures, in order to optimize costs and adjust them to market requirements, and to remedy the temporary or cyclical imbalances in the supply/demand relationship that are characteristic of the textile and clothing industries, in order to avoid unnecessary economic or employment losses.

The following measures are considered necessary for attaining the objectives of the Reconversion Plan:

**Tax measures**

(a) Rebate of 99 per cent of the tax on capital transfers and deeds, charged on loans, borrowings and capital increases, when the relevant amount is intended for investment in new fixed assets of an industrial character required for the reconversion process.

(b) Rebate of 99 per cent of the general turnover tax and provincial surcharge, customs duties and internal charges compensatory tax charged on imports of capital goods and tooling for initial installation, where such goods are not manufactured in Spain and are imported by companies or undertakings covered by the Reconversion Plan.
(c) Special plans are to be drawn up, providing for discretionary amortization in relation to assets.

(d) Investments in new fixed assets, amounts earmarked for research programmes, development of new products or industrial processes, and promotion of export activities by undertakings in pursuance of the Reconversion Plan – in all cases, a 15 per cent reduction in the fiscal component of corporation tax.

(e) Mergers envisaged under the Reconversion Plan will be carried out through the abridged procedure established by the Ministry of the Treasury with the benefits deriving from Law No. 76/80 of 26 December on the tax régime applicable to company mergers.

Financial measures

(a) Financing facilities under the Plan for investments in fixed material assets, such as access to official credit.

(b) Postponement of payment of tax debts where the voluntary period for payment ended prior to 1 March 1981.

(c) Postponement of payment of social security contributions owed by firms at the time of applying for coverage by the Reconversion Plan.

Industrial measures

(a) Freedom of installation, extension and transfer in respect of industrial activities covered by in the Plan.

(b) In the granting and allocation of funds for investment in real estate, firms in operation for more than one year will have priority over those recently or newly created.

E. Royal Decree No. 2793/1981 of 19 October on industrial reconversion of the sector manufacturing electrical equipment for the motor vehicle industry. This Royal Decree is applicable to industries principally engaged in the manufacture of components for electrical circuits intended for heating equipment of motor vehicles, other than equipment fulfilling auxilliary or complementary functions. Specific objectives and conditions are laid down for firms requesting coverage by the Plan:

- reorganization of financial structure
- plans providing for minimum average investment of 5 per cent of expected sales in the period considered.
- incorporation of new technologies
- manufacture of new products
- 25 per cent increase in productivity levels in the first three years
- direct exports to be not less than 20 per cent of total annual sales in 1983.

Firms covered by the Reconversion Plan will be eligible for the tax benefits established under Royal Decree-Law No. 9/1981 of 5 June and Law No. 76/1980 on company mergers.

Over the period 1981-1988, an assistance plan for early retirement has been established for workers leaving these companies; it also envisages the possibility of suspension or reduction of working hours. Resources such as official credit, guarantees and other financial aids are being established for financing the Investment Plan in respect of fixed assets.