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. The submissions of Hungary, India, New Zealand and Sweden 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 fulfill 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.
HUNGARY

I. Hungary's trade policy

1. Hungary became a contracting party to the General Agreement on Tariffs and Trade in 1973. Its accession was made possible by the economic-management reform of 1968.

By its accession to the GATT, its participation in the Multilateral Trade Negotiations and its adherence to many of the agreements prepared in GATT, Hungary's objective was to become part of the multilateral trading system.

2. During the period following its accession to the GATT, Hungary took significant steps towards the progressive reduction of obstacles to trade.

The most important of these steps were:

- A reduction by about 15 per cent in the average rate of Hungarian customs duties, which was one of the results of the negotiations for accession to the GATT;

- The tariff concessions granted by Hungary during the MTN, which in 1987 will mean a 37 per cent reduction in customs duties, the reductions to be made progressively in annual stages;

- During the multilateral negotiations, Hungary participated in the preparation of many codes of conduct. After the negotiations, Hungary acceded to most of these codes: Agreement on Technical Barriers to Trade, Agreement on Implementation of Article VII of the General Agreement (Customs Valuation Code), Agreement on Import Licensing Procedures, Agreement Concerning the Application of Article VI of the General Agreement (Anti-Dumping Code), as well as the Arrangement Regarding Bovine Meat and the International Dairy Arrangement;

- To promote imports from the developing countries, Hungary primarily makes use of its system of preferential customs duties and its progressive expansion. Hungary's GSP was introduced in 1972, covering 584 agricultural and industrial products.

The system makes no provision for safeguard measures. As a result of action taken in 1974 and 1978, the number of products enjoying a preferential rate of duty has almost trebled since 1972 and now applies to 1,457 tariff headings (or sub-headings), representing almost half of the total number of headings (or sub-headings).
Since 1978, Hungary has granted duty-free entry for all imports of products from the least developed of the developing countries. In 1981, preferential treatment was accorded to ninety-one developing countries. Hungary has been applying Part IV of the General Agreement since its accession.

II. Structural adjustment policy

3. This description of the structural changes in Hungary's economy and of the policies relating thereto concerns the period 1970-1980.

The changes which took place in the world economy during the 70s had a major impact on the development of Hungary's economy. One of the effects worth stressing was the considerable deterioration in its terms of trade caused by the price explosion of 1973-1974. From 1973 to 1980, Hungary's terms of trade worsened by about 20 per cent.

There was a general deterioration of the state of Hungary's exports. Its export market suffered from increased agricultural protectionism while other sectors, including textiles and iron and steel, were also marked by a protectionist trend. In general, the world economic recession had the effect of reducing the purchasing power of its main foreign markets and hence their imports. Among the unfavourable external factors was the continuation in the 70s of discriminatory quantitative restrictions against Hungarian goods. The increase in the size of the EEC on two occasions during that period did not help matters as regards either the export opportunities of the Hungarian economy or the conditions of access for its goods.

4. The changes that took place in the economic development of Hungary and the restructuration measures taken during the 70s opened a new path for structural change in the economy. Between 1950 and 1975, the share of agriculture in GNP fell from 42 to 18 per cent, while that of industry rose from 32 to 50 per cent. The structural-adjustment period centred on "efficiency", to which the period of rapid industrialization had given way, is now characterized not by sudden changes in macro-economic structure but by transformations taking place at the sectoral and sub-sectoral levels, which it is difficult to characterize in statistical terms.
Principal Changes in Hungary's Economic Structure (in %)

<table>
<thead>
<tr>
<th>GNP</th>
<th>Persons employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>17.4</td>
</tr>
<tr>
<td>Mines and quarries</td>
<td>7.0</td>
</tr>
<tr>
<td>Electric power</td>
<td>2.8</td>
</tr>
<tr>
<td>Processing industries and building construction</td>
<td>47.5</td>
</tr>
<tr>
<td>of which: Food products, beverages</td>
<td>15.7</td>
</tr>
<tr>
<td>Textiles, clothing</td>
<td>5.8</td>
</tr>
<tr>
<td>Leather and footwear</td>
<td>2.5</td>
</tr>
<tr>
<td>Wood, furniture</td>
<td>1.6</td>
</tr>
<tr>
<td>Paper, books</td>
<td>1.5</td>
</tr>
<tr>
<td>Chemicals</td>
<td>10.7</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>9.3</td>
</tr>
<tr>
<td>Machinery</td>
<td>13.9</td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>25.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The changes that took place in the structure of employment reflects a redeployment of labour, which started in the 70s, towards the tertiary sector. In the last few years, the number of persons employed both in the agricultural sector and in industry has declined.

5. Far more important changes have taken place within each sector. In energy production, for example, a sector of cardinal importance in Hungary's restructuration, the share of hydrocarbons in the consumption of energy was 21 per cent in 1960, 43 per cent in 1970 and 61 per cent in 1980 - a trend which was also seen in the constant growth in the share of energy imports: 26 per cent in 1960, 36 per cent in 1970 and 53 per cent in 1980.
The changes taking place in the structure of light industry are marked by reductions, between 1970 and 1979, in textiles (from 38 to 34 per cent), clothing (from 14 to 12.6 per cent) and leather, fur and footwear (from 17.8 to 16 per cent), and by increases during the same period in other industries: wood went from 11.8 to 14.6 per cent, paper from 7.7 to 9.1 per cent, and books from 5.6 to 7 per cent. In the structure of machine production, the share of general machine-products dropped from 26.3 to 22.1 per cent and that of iron products and equipment from 16 to 10.7 per cent, while those of vehicles increased from 26.6 to 27.8 per cent, of electrical machinery from 10.7 to 15.8 per cent and of teleprocessing products and vacuum equipment from 7.5 to 9 per cent.

On the other hand, because of special factors in Hungary's economy, iron and steel production, which is slowing down worldwide, increased by 45 per cent during the 1970-1980 period. Steel production rose from 3.1 to 3.9 million tons, and rolled-steel output from 2 to 3.2 million tons.

6. The structural changes in the Hungarian economy are also reflected in its foreign trade. Hungary's participation in international trade accelerated greatly during the seventies. From 1970 to 1978, the ratio of total exports to GNP rose from 31.1 to 38.5 per cent; the corresponding ratios for industrial exports went up from 17 to 31 per cent and for machine products, from 29 to 49 per cent.

The product structure of Hungary's exports to the OECD countries clearly shows the extent and the consequences of the structural shock that came from abroad. Hungary was compelled after 1974 to find other markets for approximately 80 per cent of its traditional bovine exports to the EEC as a direct consequence of the total cessation of Community imports following the limitation of opportunities in its markets.

7. As more vigorous structural-adjustment phenomena did not manifest themselves until after 1977, no large-scale structural change took place. Responding more closely to world market trends, the mechanical engineering sub-sectors (appliances, electrical equipment) saw an increase in their share during the last decade, while a number of sub-sectors of the "international over-supply area" which require imported materials and the prices of which were showing an unfavourable trend - such as light industry, iron and steel and heavy chemicals - maintained their relative position in national production.

The structural changes that took place in the 70s did not help stop the economic imbalance from worsening.
8. Investment policy had only limited room to manoeuvre in promoting structural adjustment. Between 1971 and 1975 on average, 53 per cent of all investments went to industry, 2.5 per cent to the building sector, 15 per cent to agriculture and 12 per cent to transport and telecommunications.

In the industrial sectors which play a major rôle in international trade, 9.6 per cent of the investments made during the first half of the 1970 decade went to mining, 13.4 per cent to electric-power development, 8 per cent to iron and steel, 11 per cent to the food and light industries, 19 per cent to chemicals and 16 per cent to mechanical engineering. The share of the chemical industry in investments was considerably higher than its share in output, while the converse applied to mechanical engineering. In the 1975-80 period, more than one third of investments were made in the energy sector while considerable development resources were directed to the raw-materials branches. Towards the end of the decade, the strong need to strike a balance made the reduction of investments inevitable. Thus, the volume of investments stagnated in 1979 and fell sharply in 1980.

9. In the circumstances that existed, the credit policy of the National Bank of Hungary constituted one of the most effective factors for stimulating alignment with the new conditions in the world economy. The Ft 45 billion of credit granted for the quantitative expansion and restructuration of export capacities has, on the whole, met expectations. Owing to the fact, however, that such credit represented only 11 per cent of the total investments of enterprises, it did not suffice to produce a radical shift in the unfavourable trends of foreign trade.

10. A decisive rôle was given to pricing policy. The measures taken in 1975-76 in the matter of prices, which resulted in price rises of about 50-60 per cent in the most widely used materials were aimed at bringing domestic price relationships into line with those of world markets.

Beginning with 1979 heavy stress was laid on the concept that prices must determine the decisions of both enterprises and consumers. Consumer-price readjustments indicate considerable alignment with international price relationships. The producer prices introduced on 1 January 1980 have also established a still more direct link between domestic and foreign prices. In the new producer-price system, even the prices of raw materials and commodities are based on world prices, and domestic prices are following the movement of world-market prices. Domestic pricing is based on the levels of export prices and profits. This system has the effect of encouraging enterprises to aim at higher export prices.
Hungary's structural policy has recognized that the progressive limitation of the activities of low-efficiency sectors has a beneficial effect on the economic cycle, alleviates the problems caused by previous over-employment and excessive consumption of raw materials, creates an interest in broadening co-operation with developing countries, and establishes more favourable conditions for the development of sectors which are essential for adjustments in Hungary's economic structure.

11. Along with the factors tending to accelerate the processes of structural adjustment in the Hungarian economy, reference must also be made to the negative rôle of obstacles to adjustment. The trade policy of the EEC towards Hungary is a main hindrance to the development and structural transformation of Hungarian exports. Agricultural protectionism, sectoral arrangements and various kinds of discrimination are affecting a major part of Hungary's exports. Because of its circumstances, Hungary possesses some significant comparative advantages as regards its agricultural and food production. Those advantages, however, cannot make themselves felt in its exports because extensive agricultural protectionism has made it practically impossible to exploit them.

The objectives of structural adaptation, and therefore the utilization of the country's comparative advantages, are greatly impaired by the quantitative restrictions, incompatible with Article XIII of the General Agreement, so widely maintained by the EEC countries.

The exploitation of the comparative advantages embodied in the high vocational level of the Hungarian labour force requires a development strategy that goes hand in hand with large long-term investments in \( R + D \), production and marketing, and with more extensive international co-operation among enterprises. It is difficult, however, to implement such a strategy in an uncertain trade-policy atmosphere characterized by widespread protectionist measures. Certain countries are reacting to the changes that have occurred in comparative advantages by raising a wall of protectionism in order to support sectors that have become uncompetitive.

In addition to excessive protection against international competition, these sectors are in most cases receiving massive injections of subsidies to keep them artificially alive. Protectionist measures which aim at artificial preservation and not reasonable structural adjustment may shake the very foundations of the multilateral trading system and are no solution at all to the problems of national economies. Such measures may at any moment render painstaking adjustment efforts useless.

12. The National Development Programmes (petrochemicals, road vehicles, data processing, aluminium), which were initiated in the 60s, were in most cases drawn up in the light of the then existing conditions in domestic and regional markets. The light industry sectors, which are already lagging in the industrialized countries, were endowed in Hungary with reconstruction programmes making large use, at the beginning of the 70s, of means of renewal and extension of production capacities rather than suffering elimination or limitation of their activities.
The energy sectors, indeed the primary motive forces of structural adjustment, have shown what are essentially defensive reactions. The overall rise in the level of development of the consumer-product sub-sectors has had the effect of increasing the proportion of better quality products. The impact of technical developments on structural adjustment is reflected primarily in the increased relative importance of electronics. The dynamics of growth of various sectors and of structural change largely depend on external markets.

13. In conclusion, it may be said that Hungary's processes of economic development and the modifications introduced in implementation of structural policy indicate an acceleration of the alignment of the Hungarian economy with changes in external conditions, in spite of the serious challenges of the world economy and a slowdown in Hungary's economic growth. These processes show that factors of production are concentrating more and more on fields of activity and on production units which make greater use of domestic natural resources and labour at higher levels of productivity and profitability.

Because of the time needed to deploy the various mechanisms of economic policy and the time-gap between economic-policy decisions and their effects, the results of the structural-adjustment process have not been sufficiently reflected in economic flows. International as well as Hungarian experience shows that the elimination or reduction of obstacles to the adjustment process is per se a most important propellant. Hungary has not succeeded in eliminating or reducing the external obstacles to the adjustment process, the discriminatory measures taken against it, and the factors of uncertainty affecting its trade. In view of the continuing obstacles to adjustment, the results obtained are reflected only in a slowing-down of the deterioration of Hungary's position in the world economy.

The spread of protectionism is bad for all countries because it leads to the narrowing of their markets. It particularly affects countries which, reacting to the changes that have taken place in comparative advantages, seek consciously and consistently to readjust their structures.

All their efforts run the risk of proving vain, if they come up against protectionist measures and closed markets, in which because of such measures, the competitive advantages cannot be exploited. That can ultimately lead to world paralysis of the process of structural adjustment.
INDIA

Some Preliminary Reflections on India's Experience with Structural Adjustment and Trade Policy

We welcome the decision of the Working Party on Structural Adjustment and Trade Policy to invite governments to submit their experience on various aspects on Structural Adjustment and Trade Policy. It is felt that this exchange of information would further facilitate work in this important area to which the Government of India attaches considerable importance and would, through a process of continued deliberation, help and facilitate progress towards the objectives set forth in Part IV of the General Agreement and, in particular, Article XXXVII:3(b) which stipulates that developed contracting parties undertake to:

"give active consideration to the adoption of other measures designed to provide greater scope for the development of imports from less-developed contracting parties and collaborate in appropriate international action to this end".

The interpretative note to the above paragraph states:

"The other measures referred to in this paragraph might include steps to promote domestic structural changes, to encourage the consumption of particular products, or to introduce measures of trade promotion."

It is generally felt that adequate steps are perhaps not being taken by the concerned contracting parties in respect of their commitments under these provisions. It is hoped that the present exercise intended at disseminating information would help clarify this and related aspects and serve to facilitate the fulfilment of objectives set forth in Part IV of the General Agreement.

2. Indian economy has undergone many significant structural changes in the past two to three decades. The process of industrialization achieved through the system of planned development has brought to the economy a wide industrial base which is at present poised for further development thrust. Production activity in the economy has moved from primary stages to higher stages of manufactures. Significant structural changes have also been achieved in the field of trade in terms of changes in volume, geographical pattern and commodity composition of exports and imports.
3. For a developing country like India, the process of structural adjust­ment does not lie so much in making a choice between sectors based on their competitiveness but more in the continuing process of development. In fact, the level of industrialization and technology is still quite low compared to the developed world standards. In this background, it is not relevant to talk of shifting the industry from one sector to the other; what is, in fact, relevant is the rapid development of all sectors. An appropriate environment has to be created for such development.

4. The Industrial Policy Resolution of 1956 has served as the cornerstone of the framework for India's industrial development. The Government is committed to rapid and balanced industrialization of the country with a view to benefiting the common man in the shape of increased availability of goods at fair prices, larger employment and higher per capita income. In implementing the Industrial Policy, the following socio-economic objectives are, inter alia, kept in view:

- optimum utilization of installed capacity;
- maximizing production and achieving higher productivity;
- higher employment generation;
- correction of regional imbalances through a preferential development of industrially-backward areas;
- strengthening of the agricultural base by according preferential treatment to agro-based industries and promoting optimum inter-sectoral relationships;
- greater emphasis on the promotion of export oriented and import substitution industries.

With a view to correcting regional imbalances, the Government's policy aims at the even dispersal of industry and the setting up of units in the small-scale sector and in industrially-backward areas. The intention is to promote a form of industrialization that can generate economic viability in the villages. Industrial development is viewed in the broader context of generating higher production and employment.

5. In view of the constraints on resources in a developing country like India and also taking into account increases in the prices of capital goods, particularly those required to be imported, it is ensured that no avoidable restrictions are placed on the fullest utilization of the existing industrial capacity. In 1975, certain decisions were taken in recognition of the need for additional capacity by allowing replacement and modernization of equipment and liberalization of investment procedures for stimulating production in certain selected industries. This extra liberal policy especially characterizes core industries or industries which have direct linkages with the core sector and industries which have a long-term export potential.
The under-utilization of capacity that characterizes a large number of units is being sought to be improved both by ensuring availability of power, steel, non-ferrous metals, transport and port facilities and also through a policy of replacement, renewal and modernization.

6. Given the importance of industry in efforts to correct India's growing adverse balance of trade, permission is being given for the setting up of 100 per cent export-oriented units, to requests for expansion of existing units exclusively for purposes of exports and allowing higher production for exploiting fully emerging export opportunities.

7. The emphasis on Research and Development is intended to ensure both constant updating of technologies with a view to ensuring optimal utilization of scarce resources and also percolation down of the benefits of R and D to the medium and small units. Measures are also being taken to facilitate transfer of technology from efficiently operating units to small-scale units. Companies which have well established R and D organizations, and have demonstrated their ability to absorb, adapt and disseminate modern technology are being permitted to import such technology as will increase their efficiency and cost effectiveness.

8. "Modernization Packages" are being evolved to suit the requirements of each industry, and will include all aspects, i.e. appropriate location, optimum use of energy and the adoption of the right kind of scale and technology in order to minimize costs and improve efficiency in the use of scarce materials, the supply of which come from non-renewable sources. It will be the Government's endeavour to ensure that the process of modernization percolates down to small units and the villages. As in the case of the large-scale modern industry, where new processes and technologies must replace the old and the traditional ones, in the decentralized sector also, improved tools and techniques which will contribute to higher productivity are an essential ingredient of modernization.

9. It is increasingly felt that mere creation of additional industrial capacity will not suffice. The focus is, therefore, increasingly shifting to modernization and updating of technology on a continuing basis in order to ensure that industry remains competitive. The Government is, therefore, pursuing a policy which supports the induction of fresh technology inputs on a selective basis as supportive and complementary measures to indigenous efforts. An essential ingredient of this policy is to ensure appropriate transfer of technology. Encouragement and support is also being given to industry to develop total systems capability, i.e. capability intended to design and execute total systems from concepts to mounting. Enterprises which have already established themselves in the lower unit size equipment are being encouraged to take up higher unit size where required.
10. In view of the rapidly rising expenditure on the import of oil, efforts have been mounted towards adoption and development of appropriate technology and techniques as could help reduce expenditure on the import of oil. It is on this account that the Government has decided that such industrial process technologies as would aim at optimal utilization of energy or exploitation of alternative sources of energy would be given special assistance.

11. Despite acute balance-of-payments difficulties, the efforts of the Government have been to continue to liberalize imports and the Import Policy has been streamlined in recent years in order, inter alia, to strengthen the industrial infrastructure. The thrust of the Import Policy is to give momentum to production by maintaining supply of essential raw materials and other inputs. An uninterrupted availability of spares for maintenance of machinery and equipment is essential for a strong production basis. The import of such spares continues to be permitted on a liberal basis. The procedures for issuing import licences have also been simplified and streamlined. An increasingly liberalized import policy also aims at strengthening the export production sector and providing it with the needed range of imports and flexibility to give it added competitive strength in world markets.

12. The Government is pursuing the goal of a vibrant, self-reliant and modern economy in which all sectors and all segments of the society have a positive rôle to play.
I. **Structural adjustment policies**

New Zealand's economic experience of the 1970s, like that of many other contracting parties, stands in marked contrast with the stability, full employment and relative affluence of the preceding two decades. The New Zealand Government's overriding concern to lift the economy out of the low growth situation it is now experiencing has led to a recent redefinition of industrial policies aimed at restructuring the economy. The tendency is towards a more open economy with less regulation, restraints on business enterprises, although the economic situation also places a constraint on the possible rate of change.

2. The 1979, 1980 and 1981 budgets represent a commitment to economic development through the twin elements of growth and change. By concentrating on the broad framework of policies which determine the condition of the economy, the Government hopes to create the right climate in which investment by the private sector can be encouraged and where efficient export-oriented and import-substitution industries can attract resources at the expense of less efficient industries.

3. During the period 1975-1978, the Tariff Review Committee revised the tariff levels used to protect New Zealand manufacturing in readiness for an eventual movement away from import licensing. Following this review, which isolated ten industry groups for further study, the Government decided to continue and accelerate the process of industry reviews begun in 1976, with a view to determining the potential of specific sectors to contribute to New Zealand's economic growth and the degree of support, whether by way of protection or otherwise, required to realize that potential.

4. It was announced in the 1979 budget that these ten industries, wine, packing, plastics, radio and television, footwear, glassware, rubber products, motor vehicles, starch and margarine, would be investigated and reported on by 30 June 1980. Three studies, wine, packing and plastics, were referred to the Industries Development Commission and the other seven were referred to the Treasury, Department of Trade and Industry and the Customs Department for joint action.

5. The Industries Development Commission was originally set up under the Industries Development Commission Act 1961 and derives its authority from the Industries Development Commission Amendment Act 1975. This body operates independently from the Department of Trade and Industry and reports on
matters relating to industrial development and protection at the frontier when requested by the Government. The Commission has reported its findings on a number of studies and its recommendations have been considered and acted on by the Government in the following industries:

- **Textiles**: where the aim of the measures which have been introduced by the Government is to channel resources into those areas of the industry with the best long-term potential, that is, wool-based products, knitwear and apparel.

- **Wine**: where measures have been implemented by the Government to encourage improvement in the quality of domestic wines and create conditions conducive to containing costs of both wine production and wine distribution and provide for the full development of the industry's export potential.

- **Packing**: where the Commission's study of the differentials which existed either in the tariff or in import licensing treatment, between goods imported in bulk and similar goods imported in retail packs, led it to make recommendations accepted by the Government designed to identify and encourage those packing operations which can operate on an internationally-competitive basis and which make a satisfactory contribution to the economy or which have the potential to do so.

- **Shipbuilding and repair**: where the Government implemented measures designed to assist the currently depressed shipbuilding industry with few forward orders.

- **Plastics**: the Commission has completed its study of the plastics industry but it is still under consideration by the Government.

- **Tobacco**: where measures were implemented by the Government to ensure a domestic industry should continue but with a gradual transition to a less-regulated market environment.

Officials have also now completed the preliminary stages of two further studies: footwear and electric motors. These are still being considered by the Government.

**Textile industry plan**

6. The objectives of the Industry Study Programme can best be illustrated by the recent decisions the Government has made on the long-term position of the textile industry, which were based on the recommendations of the Industries Development Commission's report, "The Textile Industry Development Plan". This report is the result of an exhaustive enquiry into all aspects of the industry and was conducted over a period of about three years. The textile industry was selected for study because it is an industry which has grown up under a high level of protection and yet has experienced very low growth.
7. The main aim of the plan, therefore, is to put the industry on a better base for export-led growth so that it can service the domestic market without unjustifiable costs of assistance. In broad terms, the Government's decisions will strengthen the major areas of wool-based products, knitwear and apparel, through a reduction in the cost of the materials they use. The new measures are intended to arrest the downward trend by redirecting support to the areas of the industry with the best long-term potential, which is in line with the 1979 and 1980 budget strategies to improve the efficiency of all sectors of the economy.

8. The trade effects of the Textile Plan can only be measured from 1 July 1980, when a liberalization at the frontier was implemented on certain tariff items in Chapters 51, 56, 60, 61, and 62 of the Tariff. At this stage it is too early to notify any significant effects of these structural adjustment policies, although it is expected that the more liberal access measures will benefit efficient overseas producers (particularly in the synthetic fabric and yarn categories).

II. Structural adjustment and trading patterns

9. New Zealand's trading pattern over the past three decades has altered markedly. By way of illustration the United Kingdom took 66 per cent of all New Zealand's exports in 1950, but only 13 per cent for the year ended June 1981. Several new patterns of trade have emerged. The first is the growth of exports to Japan, Australia and the United States with the result that these three markets and the United Kingdom each take approximately 13 per cent of New Zealand's exports. Of these four markets, Japan is now the most important, ($NZ 783 million), with Australia taking only a slightly lesser figure ($NZ 779 million). The second change has been the rapid growth in the last ten years of a number of new markets, including the USSR, China, Iran, South East Asia and the Pacific.

10. New Zealand has had a fundamental reconstruction of its trading pattern imposed on it by a variety of circumstances: agricultural protectionism and the entry of Great Britain into the EC; the impact of the oil shock on our terms of trade; the need for a major industrial development and restructuring - which will make the New Zealand economy more efficient, permit us to make better use of our resources, provide employment and increase the competitiveness of our manufacturing industries which, in future, will have to contribute an increasing share of New Zealand's national wealth.
11. As a major and efficient producer of temperate agricultural products, New Zealand's trading experience over the past three years has been significantly affected by the agricultural production and trading policies of its major trading partners.

12. (a) Meat

In the past sheepmeat exports have encountered only isolated access constraints, and new markets bringing good returns for sheepmeats have been developed. However, imposition of the EC sheepmeats régime does pose a potential threat to New Zealand's biggest lamb market. There is also pressure to limit United States lamb imports from New Zealand. Beef exports to the United States - New Zealand's largest and best price market - are under voluntary restraint and subject to a counter-cyclical formula. New Zealand beef is also under voluntary restraint in Canada, and faces variable levies and ad valorem duties in the EC, and is limited by quota in Japan. And the beef market beyond these areas is small.

(b) Dairy products

New Zealand butter exports are subject to quota in the EC, are held to a minimal level by quota in the United States, under quota in Canada, and have been virtually eliminated by Japan. New Zealand has strictly limited access arrangements for cheese with the EC. Cheese is subject to quota in the United States and Canada. New Zealand exports of fat mixes have recently been placed under voluntary restraint in Japan and pressure in the United States to restrict casein imports is continuing.

13. The maintenance of a range of non-tariff barriers and income support policies set contrary to the trend of market forces in these countries has seriously undermined the stability and profitability of trade in temperate agricultural products on which New Zealand is both heavily dependent and which it is economically well placed to pursue. In short, structural adjustment, which may be defined as broadly encompassing the adjustment of established industries to accommodate competitive changes in international trade and production patterns should not only take place in the manufacturing field, but should also take account of relative efficiencies in the field of agricultural products.
14. In this regard, it is to be hoped that this Working Party will take account of the following factors in its deliberations:

(a) Comparative advantage in agricultural as well as industrial production (a concept which is implicit in GATT objectives);

(b) The need for a long-term and global perspective;

(c) The need for general rather than selective measures;

(d) The need for social and security objectives (where these conflict with the economic logic of adjustment) to be met by cost-effective means;

(e) The responsibility of the major economies for adjustment against the background of the limited capacities of small trading nations.
SWEDEN

Structural adjustment in the Swedish economy

1. Overview

Post-war development of the Swedish economy has been characterized by a considerable structural transformation. The share of the total labour force employed in agriculture decreased from 20 per cent in 1950 to 5 per cent in 1980. During the same period, industry's share decreased from 41 per cent to 35 per cent. Very important structural changes have also taken place within the industrial sector. The importance of the service sector has grown considerably - from 39 per cent of the labour force in 1950 to 60 per cent in 1980.

The main driving force behind this structural transformation was a rapid productivity increase in industry and agriculture a fairly rapid increase in industrial production and a rapid growth of foreign trade. Industrial output rose by an average of 4 per cent annually during the fifties and more than 6 per cent annually during the sixties, and the level of investment in industry was high. Demand for Swedish export products remained at a high level and Swedish industry was well prepared to take advantage of the benefits offered by the emerging open multilateral trading system and by the expanding world economy.

A number of factors explain why the significant structural changes during the fifties and the sixties took place fairly smoothly. Swedish industry was oriented towards investment goods and raw materials, competition was weak and demand increased rapidly, not least in Europe. The Government's policy was to encourage, through general economic policy and through labour market policies, a transfer of productive resources from less competitive industries and sectors to more viable ones. A key element in the structural transformation was a highly organized and well-functioning labour market, which included centralized wage agreements that speeded up structural change and that encouraged the transfer of manpower from declining to expanding sectors. Labour organizations generally recognized the importance of international cost-competitiveness and took a positive attitude in principle to mobility and change. The very significant increase in the share of the public sector was made possible through substantial productivity increases in agriculture and in industry, inter alia, due to technological developments and low energy costs.

During this period of rapid economic expansion, the degree of integration of the Swedish economy into the world economy was even further enhanced, due, inter alia, to liberal trade policies. Specialization increased, as did dependence on foreign trade and vulnerability to
disturbances in the world economy. Dependence on imported oil grew dramatically during the fifties and the sixties.

The economic development in Sweden during the fifties and sixties is a good example of a successful adjustment process. Production factors moved smoothly and rapidly from sectors with lower productivity to higher productivity sectors and enterprises. Together with the rapid growth of international trade, this created the necessary conditions for rapid industrial growth. During this period, government intervention in industry was limited to ownership of certain enterprises mainly in the raw-materials producing sector. However, government programmes in certain fields (housing, communications, defence, etc.) played a major rôle for industrial expansion in these fields.

Serious imbalances have developed in the Swedish economy since the mid-seventies. These imbalances have been caused by both external and internal factors. The symptoms are slow growth, high inflation, external balance deficits, large State-budget deficits, unemployment and severe problems in certain parts of industry.

It is obvious that a country like Sweden, which is both highly dependent on imported oil and on the general world economic situation, has been very much affected by the oil price increases that have taken place during the seventies, both directly and indirectly through reduced demand for Swedish industrial products. The situation in the late seventies was aggravated by a rapid increase in labour costs for Swedish industry in the period 1974-1976, which led to a decline in competitiveness and in shares on world markets. At the same time, several new very competitive countries appeared in areas where Swedish industry had had an important traditional position.

It could be argued that Sweden has been harder hit by the international economic recession in recent years than many other countries. The reason for this is the fact that Swedish industry has reached a very high degree of concentration and specialization. Three traditionally very important industrial sectors in Sweden - shipbuilding, iron and steel and iron ore - have been seriously affected both by the generally low level of demand and by the emergence of new competitors. The fact that important regional policy aspects appear with respect to all these three branches makes the situation even more difficult.

The structural problems have appeared in a situation which is characterized by slow growth and important constraints with respect to the ability of the rest of the economy - both the private and the public sectors - to absorb manpower from declining sectors or from industries that have to close down. The employment situation has been aggravated by regional imbalances and by various social factors which have reduced the mobility of labour.
The Swedish Government has taken a number of measures and designed a number of policies with a view to eliminating the present economic imbalances.

The Government recognizes that it is essential for Sweden to adapt to changing international competitive conditions. Such an adaptation is in the interest of Sweden as well as of other countries, considering the advantages for all parties of an international division of labour. However, occasions may arise which necessitate government measures to ensure that the structural transformation takes place in a socially acceptable manner or otherwise in a way which safeguards essential national interests.

Sweden is - and will continue to be - a market economy country with decentralized decision-making. From the point of view of efficiency, flexibility and adaptability such a system has important advantages, not least in an international perspective.

The firm objective of the Swedish Government's industrial policy is to stimulate and facilitate a transfer of productive resources to the profitable and competitive parts of industry and thereby to improve industry's competitive position in an international perspective. The process of structural adjustment must take place in a socially acceptable way and take into account general economic and social objectives.

2. Trade policy

A policy of free trade is a key element in Swedish economic policy.

An important factor in the general setting in which the adjustment process has taken place in Sweden, is the high extent to which foreign trade is liberalized. Foreign trade has increased substantially and has been promoted through successive reductions both of tariffs and of non-tariff barriers. Sweden's membership in GATT and EFTA, as well as the free-trade agreement with the EEC, have provided the framework for efforts to reduce barriers to trade. By international standards, Swedish tariffs are very low. For industrial products the average tariff rate amounts to 4 per cent. Furthermore, through the EFTA agreement and the free-trade agreement with the EEC, about two thirds of Sweden's trade is completely exempt of tariffs.

Following the conclusion of the MTN, the Swedish Parliament has approved further tariff reductions in accordance with the commitment made during the negotiations. Furthermore, Sweden has already ratified all codes agreed upon during the MTN. The Swedish tariff reductions made as a result of the MTN will amount to 28 per cent on an average. Tariffs are to be gradually reduced during the 1980-87 period.
The traditional policy of free trade has quite naturally increased the openness of the economy. Even in the seventies, with its lower growth both domestically and internationally, the process of integration of the Swedish economy into the international economy continued at a rapid pace and the share of exports in industrial production and the share of imports in total domestic consumption of industrial products have increased from around 25 per cent in 1970 to more than 30 per cent in 1980. To a large extent this must be seen as a result of the trade creation effects of the general European trade liberalization. But trade statistics also clearly show that Sweden has taken part in the global economic adjustment process; for example the volume of manufactures imported from the developing countries has risen faster than that of raw materials. Different steps have been taken by the authorities to further promote this development. Since the early seventies, Sweden applies a generalized system of tariff preferences (GSP) (see below).

In various international fora, the Swedish Government has advocated the necessity of resisting protectionist pressures and of maintaining and improving the free-trade system. This attitude must of course be seen against the background of the large benefits that Sweden has reaped from trade liberalization. Sweden is particularly concerned about the increased use of Orderly Marketing Arrangements (OMAs) and Voluntary Exports Restraints (VERs) and has argued in favour of greater transparency and international surveillance of such practices. Sweden has also made several efforts to reduce export credit subsidies between major exporting countries. Furthermore, the Government is actively supporting the work initiated within the OECD on trade in services aimed at a liberalization of such trade.

The Government has taken a number of steps in order to promote trade with the developing countries. The Swedish Generalized System of Preferences came into operation in 1972. Since then it has been extended, both as to the number of goods and with regard to countries eligible. Most manufactured and semi-manufactured goods, and several food and agricultural products, are now subjected to the GSP. As a result of MFN treatment and these preferences, about 85 per cent of total imports from the developing countries may enter Sweden free of duty. The corresponding figure for imports from the least-developed countries is about 95 per cent. Imports from developing countries are also promoted through a special government agency, which was set up in 1975 to assist exporters in developing countries to sell their products on the Swedish market (IMPOD).

Since the mid-sixties imports from the developing countries have increased their share of total imports and the composition of merchandise imports has changed. While the value of raw materials and food and other agricultural products imported from the developing countries has risen by 275 per cent between 1970 to 1979, the value of the imports of manufactured goods has increased by nearly 650 per cent.
Existing international obligations in the field of trade policy and a belief that an open multilateral trading system based on the principle of free trade carry important advantages for Sweden and for the rest of the world, are important points of departure for Swedish economic policy. There is a broad political support in Sweden for these principles. However, in one exceptional area, the field of textile and clothing, Sweden's firm emphasis on free trade has led to an important penetration above 80 per cent. The number of employees in this sector has decreased from 102,000 in 1970 to 49,500 in 1980, i.e. a decrease by more than 50 per cent. As production has approached the minimum level acceptable in order to maintain a viable production, Sweden has concluded a number of bilateral agreements with a number of textile exporting countries under the MFA (see below).

3. Industrial policy

Structural changes within the industrial sector have been important in recent years. Out of total industrial output, the share of textiles, mining, iron and steel and shipbuilding have decreased, while the share of the engineering industry has increased.

As previously noted the main objective of Swedish industrial policy is to stimulate and facilitate a transfer of productive resources to the profitable and competitive parts of industry, and to see to it that the structural adaptation takes place in a socially acceptable way. In principle, the free functioning of the market in the context of an open trading system is relied upon for these purposes. However, specific policies are sometimes needed to influence the pace of the adjustment process. This has particularly been the case since the mid-1970s, when severe structural problems emerged in certain industrial sectors, in a situation which was characterized by general economic and regional imbalances. Several policy measures have also been taken to influence the orientation of the adjustment process, inter alia, through financing arrangements, support to technical research and development and the promotion of small- and medium-sized enterprises.

The Swedish textile and clothing industries provide an example of rapid decline of an industrial sector in a highly developed country. The evolution of these industries is, moreover, an example of how a production, almost entirely concentrated on and dependent on the domestic market, has had to make considerable adjustments due to changing patterns of international trade. Indeed, the decline in employment in the textile and clothing industries by some 67 per cent between 1950 and 1979 reflects the long-term diminution that has taken place in these industries, resulting in a concomitant drop in the number of enterprises and plants.
Textile and clothing enterprises in Sweden had to respond essentially to two important factors and shape their strategies accordingly: the first was higher labour costs in Sweden in comparison with most countries, enforced by the particular wage policy of the trade unions based on the principle of equal pay for workers regardless of the industrial activity concerned and the productivity level prevailing in them. The other main factor was the high degree of openness of the Swedish domestic market to imports. As an example, import penetration on a per capita basis of clothing from developing countries. The impact of high labour costs and openness to imports has been reinforced by the creation of strong purchasing organizations in the wholesale trade with clothing. Imports increased rapidly, amounting to 80 per cent of domestic consumption of clothing in 1980, compared to roughly 10 per cent in 1960. As a result, output of domestic companies has declined considerably, in particular since 1975. Thus the production of clothing diminished between 1973 and 1980 by 50 per cent.

Companies responded to these rapid changes in several ways; a great number of firms went out of business; others reduced their activities; equally, there were attempts, supported by various government policy measures, to move to production of high-quality products, which are less sensitive to price. This development implies an evolution of products aiming at high-class design and advanced technical efforts as regards materials. A number of companies benefited from the relatively lower wage in other countries by setting up subsidiaries or by sub-contracting work to those countries. The usual pattern in these cases has been to place labour-intensive production in other countries and maintain the rest of the activity in Sweden.

The move towards high quality products referred to above has been a prerequisite for maintaining such a level of exports which is necessary in order to preserve, together with production for domestic consumption, a minimum viable production capacity. Exports increased more in the early seventies than they have done in recent years. The re-export share of imports has also grown during the last years. In addition, the small size of the industry and its position on the important domestic market now appears to be such that any further decline can have a serious impact for its possibilities to survive in the long run.

Among the measures taken with respect to this sector - in addition to the trade policy measures referred to earlier - reference could be made to the special support scheme which was introduced in 1972 with a view to facilitating investments in the textile and clothing industry in areas of special importance from the point of view of economic defence.

Labour market policy measures directed to the textile industry have mainly comprised a temporary employment grant for the benefit of elderly workers introduced in 1977. The aim was to slow down the production capacity
reduction in companies with a high portion of elderly workers, thereby facilitating a development towards a new structure.

During the 1950s and 1960s, the Swedish shipbuilding industry developed into an internationally competitive export industry. This was achieved by and large without government intervention. Market conditions led to concentration on large scale production of standardized tank and bulk cargo tonnage. Large tankers were a particularly profitable business area, due partly to the Suez crisis, with the result that capacity in this sector was still being expanded in the early 1970s.

As was the case in other countries, shipbuilding in Sweden was hit very hard by the exceptionally dramatic decline in shipping orders after the 1973-1974 oil crisis, coupled with rising international competition. Specialization in tank and bulk cargo tonnage, which had once been so profitable, now proved to be very unfortunate.

When the oil crisis struck, the Swedish shipyards had a work-force of about 30,000, whereas the volume of incoming orders during the following years corresponded to a much lower level of employment. An immediate, drastic reduction of employment was not considered acceptable for social and labour market reasons. Instead a long-term adjustment and co-ordination of capacity cuts at the big Swedish yards was initiated. The State already had proprietary interests in the shipbuilding industry. These interests were augmented; and in 1977 a fully State-owned holding company - Svenska Varv AB - was formed which now owns all four of Sweden's major shipyards.

A very heavy reduction of shipbuilding capacity followed. In fact Sweden had already in 1976 - as the first country in the world - decided on a reduction of national shipbuilding capacity, the aim being a reduction of capacity by 30 per cent between 1974 and 1978. This reduction was accomplished according to plan. Further cuts have been made since then, and still further reductions have been decided. In this way capacity is to be further reduced until 1984, by which time the number of employees in the Swedish shipbuilding industry will be only a quarter of what it was in 1974.

Parallel to these capacity cuts, the big yards have become more specialized and their activities have developed into new business areas. Thus one of the original four big yards has converted to offshore equipment and technology, another has concentrated on special purpose tonnage, a third is continuing with conventional shipbuilding and the fourth is to be closed down. According to a structural plan adopted by the Board of Directors of Svenska Varv, the Group will regain profitability by 1985 at the latest.
The Swedish steel industry also suffered a heavy loss of demand in the mid-1970s. Capacity utilization in 1975 was down to 55 per cent. Talks were opened concerning co-operation between the three major integrated ordinary steel mills, one of them State-owned and the other two private-owned. In 1978 these negotiations resulted in a merger in the form of a semi-State-owned corporation, Svenskt Stål AB (SSAB).

According to a structural plan drawn up by SSAB, the company would become profitable with a long-term competitive potential after a five-year reconstruction period. In order to achieve this, extensive structural changes have been made by means of investments and closures, so that the three steel mills have been able, through product exchanges etc., to specialize in different product fields. The structural plan envisaged a reduction in the number of employees by about 20 per cent between 1978 and 1982. Owing to the deterioration in the steel market, the SSAB Board of Directors has decided to step up the structural transformation process, which means that employment cuts will proceed even more rapidly.

It is important to note that the measures that the Swedish Government had to take with respect to the serious structural situation in certain industrial sectors have been of a temporary character. Furthermore, the measures have aimed at an orderly adaptation to new competitive conditions and they have been linked to capacity reductions and other conditions with a view to achieving a necessary restructuring and restored competitiveness. It was considered that, given the particular phase of the business cycle in which the structural crises occurred, a policy of non-intervention would have led to an unacceptable increase in unemployment, to serious regional problems and to a scrapping of capital in excess of what was warranted on the basis of medium-term considerations. At the same time, general economic policy aimed at reducing inflation, eliminating imbalances and restoring international competitiveness.

A number of policies in other areas have been designed with a view to facilitating industrial growth and structural adaptation.

An adequate level of efforts in the field of technical research and development is an important element in the overall efforts aimed at restructuring, improved competitiveness and industrial renewal. Expenditure in
Sweden for these purposes is substantial. OECD statistics indicate that R and D expenditure rose from 1.5 to almost 2 per cent of GNP during the 1970s. The greater part of R and D expenditure — roughly 60 per cent — is borne by private industry. However, government support has increased in recent years, mainly with a view to strengthening efforts in key technology areas, stimulating innovation and facilitating large scale high-risk projects in new technology areas. A particularly important programme has been launched in the field of energy research and development, as a part of Sweden's endeavours to reduce dependence on imported oil.

In the field of financing and banking, the Government has taken a number of measures which aim at facilitating the implementation of certain investment projects, especially high-risk projects. In Sweden like in other countries, a system exists which provides State-supported export credit.

Small- and medium-sized enterprises play an important rôle in the Swedish economy. They also play a significant rôle in the process of structural adjustment, inter alia, as originators of new products and processes. Several measures have been taken by the Government with a view to promoting the development of small- and medium-sized enterprises, mainly through special regional development funds.

4. Regional policy

Seen in a European context, Sweden is a large country with a fairly small population (roughly 8 million). The average population density is less than 20 inhabitants per square kilometre.

The population is unevenly distributed and particularly the northern counties are very sparsely populated. Local labour markets are often very small. It is a common pattern that small towns are heavily dependent on a single industrial company and it is often difficult to commute to alternative job sites. This of course means that a close-down of a firm as a part of a structural adjustment can have very severe consequences for the people living in such a region.

Against the background of the serious regional imbalances that have occurred as a result of the structural transformation of the post-war Swedish economy, it has been necessary to develop a regional policy which aims at correcting some of the regionally and socially unacceptable consequences that
this transformation entails. The general objective of Swedish regional policy is to increase equality in economic, social and cultural terms between people in the various regions. A number of measures have been taken to this end, in particular grants and loans to encourage investment. An underlying principle is of course that regional development aid is only given to projects, plants and firms which can be assumed to become economically viable and in no need of further aid once the investment has been made.

5. **Labour market policies**

The existence of an active labour market policy has to a large extent made possible the far-reaching restructuring of the Swedish economy. Active labour market policies have thus constituted an integral part of the structural adjustment process in Sweden in the post-war period. Structural transformation of the 1950s and the 1960s was based on a high mobility of the labour force, both in the geographical and the occupational sense. In order to improve the functioning of the labour market the Government devoted considerable resources to the expansion of the services performed by the employment offices. Other important parts of these policies were the support to geographical mobility and a comprehensive system of training centres, which could assist in the process of matching the jobseeker with the available job opportunities. Parallel to these mobility-improving measures a system of relief works was organized in the cyclical downturns in order to create jobs for those temporary unemployed in local labour markets where cyclical fluctuations had a particular impact on the level of economic activity. Such relief works were concentrated on the expansion of local infrastructure in the form of projects, which had been planned anyway, but which were executed earlier.

During the period of recession and structural crises in the latter part of the 1970s, several exceptional measures were introduced with a view to safeguarding employment and smoothening the structural adjustment process. The importance of these exceptional measures is being progressively reduced and the main focus of present labour market policies is on the traditional mobility-supporting measures like job procurement services, relocation assistance and vocational training.

6. **Conclusion**

The Swedish economy has undergone a very dramatic structural transformation in the post-war period, as a result of, _inter alia_, productivity increases, competitiveness and liberal trade policies. This process of restructuring and adaptation to new international economic conditions will continue.
The process of structural adjustment mainly takes place as an interplay between the operation of free markets, decentralized decision-making, evolving comparative advantages and cost relationships. The ability of the Swedish economy to go through structural changes with little government intervention while still achieving economic and social objectives has been amply proven in the past.

During the period of recession and structural crises in the late 1970s it was necessary, for social as well as for economic reasons, to take temporary measures to control the pace and orientation of the adjustment process in certain industrial sectors. As a result of these measures, important capacity reductions have been achieved in a socially acceptable manner.

The adjustment of Swedish industrial structure to the international economic conditions that emerged after the oil price increases in the 1970s has been very considerable. It should be possible that the future process of structural adjustment takes place mainly without government direct intervention, since there is hope that the same kind of severe structural crises that struck certain industrial sectors in the mid-1970s will not reappear.

It should be borne in mind, in this context, that the Swedish economy is very much exposed to changes in the world economy and to changes in world industrial structures. A small country with a highly specialized and export-oriented industry is always very sensitive and vulnerable to such changes.

In looking at Swedish policies in the field of structural adjustment, particular attention must be paid to the magnitude of the regional problems and to the policies that have been introduced in order to mitigate unacceptable regional imbalances.

Another policy area which has an impact on industrial structures is the field of economic defence. Against the background of the Swedish policy of neutrality, it has been considered that the level of self-sufficiency in textile and clothing could become unacceptably low if present trends continue. Consequently, measures have been taken to support this industry, including certain trade policy measures.

During the major part of the post-war period, the Swedish economy has shown a great capacity to adjust to changing international economic conditions. The Government clearly recognizes the importance of maintaining this capacity to adjust also in the future. However, there are in the present situation certain factors related to conditions on the labour market which could reduce mobility and consequently also flexibility and adaptability (i.e. accumulation of personal fixed assets, both husband and wife having jobs, a highly specialized labour force).
A policy which is based on a recognition of the importance of structural adjustment and free trade must also include instruments that the Government can use in order to influence, in certain circumstances, the pace and the orientation of the adjustment process or otherwise mitigate politically, economically or socially unacceptable consequences of a very high degree of exposure to world economic developments. Clearly such instruments should, as was the case in the past, be used with great care and within the framework of existing international obligations.