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DISCUSSION PAPER

Report No. DRD107

TRADE LIBERALIZATION IN STRUCTURAL ADJUSTMENT LENDING

Paula E. Holmes and Olga B. Jonas

September 1984

Development Research Department
Economics and Research Staff
World Bank

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Abstract

Many trade liberalization steps have been taken recently by a number of developing countries-- in contrast to intensifying political pressures for protection and increased use of non-tariff forms of protection in industrial countries. The World Bank's Structural Adjustment Loan program, initiated in March 1980, has supported tariff reductions, the relaxing of quantitative restrictions on imports, the elimination of export licensing systems, and other specific trade liberalizations in fourteen developing countries, including Thailand, Kenya, the Ivory Coast, Pakistan, and Turkey. Many of these trade policy reforms have been accompanied by exchange rate policy changes which support these trade liberalizations. This program of liberalizations will benefit both the implementing countries and their trading partners.

TRADE LIBERALIZATION IN STRUCTURAL ADJUSTMENT LENDING

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Introduction

Although the post World War II period has witnessed the negotiated reduction of industrial countries' tariffs to minimal levels on most products, the major trade policy news of the last few years has been about the intensification of political pressures for protection and the increasing use of non-tariff forms of protection. In the United States, the Congress is "awash with protectionist schemes." 1/ The number of filed "unfair trade practice" cases in the US has gone up from 136 in 1980-81 to 262 in 1982-83, and an increasing proportion of decisions have been made in favor of domestic industry. In the EEC, the trend is similar-- both the number of new investigations and the proportion of affirmative findings increased in 1982-83

1/ Financial Times, March 1, 1984, p.6.

when compared to 1980-81. 1/ The increased protectionist pressures and evidence that major industrialized country governments have become less able to resist them give rise to concern that the international trading system is becoming less open. Even French industrialists are seeking to mobilize European businessmen to counter what they see as "damagingly protectionist attitudes" in the EEC. 2/

Though they have received much less public attention, there have been a number of recent movements in the opposite direction -- a significant liberalization of trade restrictions -- and most of these steps have been taken by developing countries. These have not been isolated or random incidents-- there is a concerted, organized attempt to liberalize the protective structure and trade policy in developing countries, one that has been supported by the World Bank's Structural Adjustment Loan (SAL) program. 3/.

Structural Adjustment Loans were introduced in March 1980, and to date, 27 SALs have been approved for 16 countries, totalling over $4 billion and accounting for about 10% of total Bank lending since that time. SALs are characterized by a comprehensive coverage of macroeconomic and sectoral issues, with a focus on policy and institutional reforms aimed at inducing greater efficiency. The policy reforms supported by the World Bank can be considered a supply-side complement to the aggregate demand-management packages advocated by the IMF, and a country must have reached an agreement

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1/ World Bank, World Development Report, 1984 (draft).

2/ Financial Times, February 2, 1984, p.5.

3/ Trade policy changes are also supported by other World Bank loans, e.g., the Industrial Trade Policy Adjustment Loans to Morocco.

with the IMF on macroeconomic stabilization before receiving a World Bank SAL. The stated objectives of SAL-supported reforms have been summarized as follows:

- o "to achieve a more efficient use of resources and thereby contribute to a more sustainable balance of payments in the medium and long term and to the maintenance of growth in face of severe constraints" and
- o "to lay the basis for regaining future growth momentum". 1/

To qualify for a SAL, a country must have "both an immediate or medium-term balance of payments problem and (...) a credible program of policy reforms". 2/

This "credible program of policy reforms" has included many changes in trade policies-- policies that have often been misused. These changes have been included in SALs because trade is an important potential avenue of growth, and because the Bank believes that the development success of trade-oriented countries can be replicated. Thus trade regime reforms have been included in the SAL programs of 14 of the 16 recipient countries. Summaries of these policy changes are in Tables 1 and 2. 3/

1/ "Structural Adjustment Lending: Progress Report" (Sec. M82-314), April 1982, p. 1.

2/ Ibid, p. 18, emphasis in the original.

3/ Implementation of some policy reforms often began before SAL approval. Since such policies have been part of a government's structural adjustment program and since they are noted in SAL documents as evidence of a government's commitment and progress, policy changes occurring before SAL-approval are included in the tables among those condoned by the Bank. Information in Tables 1 and 2 was obtained from the twenty-seven President's Reports and from country economists for those countries where enough time has elapsed to allow a judgement regarding implementation delays.

By the time a SAL program was considered, the trade regime of a typical SAL-recipient country had become an uncoordinated amalgam of measures imposed in pursuit of various objectives. Imports were often restricted to promote import-substituting industry; sectors with higher priority obtained more protection. As priorities shifted, the newly designated priority industries received increased protection, often through the creation of new policy instruments. Because loss of priority was often associated with poor economic performance even with protection in place, there was considerable political pressure against subjecting the industry to foreign competition. In many cases, exports had been restricted to assure adequate domestic supplies, often leading to low rates of return and declines of investment in the export sector. In consequence, shortages often developed, even for domestic use. Exports and imports were often taxed simply to raise revenue, with the revenue objective demanding a pattern of taxation quite different from that which a development objective would suggest.

Superimposed on each other and interacting in often unanticipated ways, these policies gave rise to high and highly variable protection in the economies. To the extent that quantitative measures are available, the degree and dispersion of protection in the SAL-recipient countries is shown in Table 3. The figures show high average protection, equivalent to a high overall subsidy for the covered sectors, and a remarkably wide range of rates. This is true for both nominal protection (which indicates the policy-induced deviations of output prices from world market levels) and for protection given

to value added (the "effective protection" columns in the table). 1/ It reflects quite unequal policy treatment of different activities. Highly protected sectors are often so inefficient that they survive only at great cost to consumers who pay much higher prices for the domestically produced goods. On the other hand, protected industries which are efficient can reap very high profits. Operation of protected activities raises the costs of the rest of the economy, so industries with relatively low protection will be effectively hurt by the unevenness of government policy. Clearly, there is scope for increased efficiency and growth prospects by reducing policy biases in the trade regimes.

This paper will review trade policy reform achievements in both the import and export sectors of countries that have received SALs, as well as exchange rate policy changes supporting trade policy reform. 2/

1/ For instance in Pakistan, domestic prices in industrial sectors were found 89 percent above world prices on average but for some industries they were much higher -- as high as 356 percent above world prices. At the same time, other industries were implicitly taxed, receiving prices as much as 46 percent below world levels. In terms of implicit taxation or subsidization of value added, profits and wages were, on average, 60 percent higher than what they would have been if both outputs and intermediate inputs were priced at world market levels. Because of the inter-action of policies, the dispersion in subsidization of value added is very large across sectors: -89 percent to more than 3000 percent. Because these are sectoral averages, protection of particular firms falls even outside these wide ranges.

2/ A survey of trade policy changes and of the conditions under which increases in efficiency would result have been provided in a recent paper: Mateen Thobani, "The rationale for trade policy reforms in SALs: experience of selected countries", CPD, April 1984 (draft).

Trade Policy Reforms - Imports

Reforms of the trade regime have been included in SALs to 14 of the 16 recipient countries. These reforms have encompassed comprehensive tariff reforms, removal of quantitative restrictions, import licensing liberalizations, and various administrative changes. Lowering of protection accorded to industry and reduction of the variability of this protection have been the principal aims of import policy reforms. Nearly all the programs have explicity recognized that high protection inhibits exports, and that lowering protection would permit expansion of exportable activities. The reduction of bias among various import-competing activities would allow the composition of output to change through the contraction of costly and inefficient activities and expansion of more profitable enterprises. When government policy becomes less heavy-handed and discriminatory in its intent and impact, the question of which activities or processes will grow and which ones will decline is left to be resolved by the interplay of private decisions. Liberalization of the economy therefore results from a reduction of bias in the trade regime.

Comprehensive tariff reforms, which include a decreased average tariff level and increased uniformity for various sectors, have taken place in several countries. In Korea the approach provides for drastic across-the-board tariff reductions and a simplification of the tariff schedule. The tariff range, which was 0-150%, is being narrowed by 1988 to a 0-30% range, with rates on 92% of tariffable items falling under 20% rate.

In Thailand and the Philippines, peak tariff rates have been reduced, and this is being followed by a narrowing of the spread in protection accorded

different sectors of the economy. The tariff range in Thailand is currently 5-60%, a result of lowering tariffs on 270 items. In the Philippines, the average tariff will be cut almost in half by 1985, while the average tariff range on 21 product categories is being reduced from a spread of 10-83% to 10-48%.

In Kenya the tariff structure is now more uniform and more moderate. All tariffs higher than 30% have been reduced by approximately 15% of the amount over 30%. Over 400 items have had a tariff reduction in Turkey, and inputs for exportables are now duty free. The Ivory Coast is currently revising its tariff schedule to smooth out the effective protection rates for various industrial sectors.

In addition to protection by tariffs, many countries have also used more direct means to limit imports. These restrictions include outright bans, import licensing, and excessive administrative procedures. Import substitution implemented with these policies is costly to the entire economy--industries, firms, and consumers.

Quantitative limits on imports allow protected firms and industries to enjoy a monopolistic or oligopolistic position, which translates into higher prices than would exist under competition. Profits are excessive and are a direct consumer loss-- a transfer from the consumer to the monopolist. Firms pay higher prices for imported inputs used in manufacturing, resulting in high-priced output, which is uncompetitive in the export sector. And consumers end up paying higher prices for domestic goods than the international market price.

Import licensing tends to reinforce this monopolistic/oligopolistic structure because a license generally is granted based on an existing market

share. This determines allocation of foreign exchange, which determines the amount of imported inputs that can be purchased, which in turn determines the amount of output. It is extremely difficult for a potential competitor to break into the market.

Excessive administrative procedures cost time and money, and therefore are a deterrant to potential competitors. Reduction of bureaucratic involvement increases opportunities for firms and facilitates their entry into trading activities.

Any elimination of these non-tariff quantitative restrictions to trade improves competitive conditions and clearly constitutes a step in the direction of economic liberalization.

In several countries, QR's are being converted to import tariffs, a form of restriction more consistent with the use of prices to allocate resources. In Kenya this replacement is occurring in stages, and the replacement equivalency tariffs fit into the new tariff reform scheme in that they are more uniform and moderate than previous tariffs. Items have been placed in four categories, the first of which is free of QR's and contains approximately 30% of import items. The remaining 70% are based on a trigger mechanism that depends on the availability of foreign exchange, i.e., the more foreign exchange Kenya has, the more items move up to the first and unrestricted category. It is intended that by 1986 only 320 of 2600 items will be subject to quotas.

In the Ivory Coast, the Government is abolishing QR's covering approximately 40% of domestic value added, and is replacing them with tariffs. The reform plan further calls for these tariffs to be phased over a five year period. In Panama most quantitative restrictions have already been

replaced by tariffs. And in Mauritius the Government is dismantling quotas, completely replacing them with tariffs, and has agreed to grant no more quotas.

In Pakistan, with the support of the IMF, approximately 40% of previously restricted items had QR's removed. This was effected by a completely new structure-- a new "negative" list has been created wich allows imports unless they are specifically prohibited by inclusion on this list. This replaces the former "positive" list which banned all imports unless they were on the list.

Turkey has abolished its import quota list covering over 300 items. This is in contrast to 1980, where 14% of all imports were subject to quotas. And in Jamaica 33% of their industrial quantitative restrictions have been removed, with no compensating tariff increases.

Import licensing and excessive administrative procedures are very often a significant hindrance to free trade. These have been removed or simplified in several countries under SALs. In Korea the tariff schedule has been simplified and administrative controls have been liberalized. This has occurred through a scheduled removal of items from lists where approval by various concerned government agencies was required before the item could be imported. Import licenses have been removed and approval is now automatic for 85% of import items. By 1988, 95% of all import items will be able to enter without government approval. In addition, the requirement to export more than $1 million in goods before receiving an import license has been dropped. And the requirement to get special customs clearance on approximately 20% of the items that needed it was dropped-- this is scheduled to increase.

In the Philippines, more than 70% of goods previously requiring import licenses no longer require licenses. This accounts for 960 consumer items, and there are plans to increase this number. In Jamaica import licenses are now issued automatically, most raw materials and capital goods no longer are subject to licensing, and the only goods that do need a license are on a "negative" list covering restricted items.

The licensing system and administrative procedures have both been simplified in Turkey. The amount to be paid as a deposit when applying for a license has been reduced, and, further, the licensing system is to gradually shift to a tariff system. During 1981-83, over 225 items valued at approximately 8% of all imports were released from the import license list. Only 369 items currently need an import license, a significant improvement over the 821 items in 1983.

In Kenya and Guyana import licensing procedures have been simplified, and in Guyana the licensing has been waived for some capital equipment. In Thailand the import documents and forms were simplified. Also of interest in Thailand is the fact that a scheduled increase in the domestic content requirement in the automobile industry was reversed.

In several countries, changes in the import regimes have been complemented by reforms of investment incentive programs. Often tax breaks, import rights, and subsidies had been provided on a case-by-case basis so that over time these programs and the connections needed to benefit from them came to be major determinants of which firms and industries would expand -- or even survive. Economic skills became secondary to political skills. Reforms with the explicit objective of reducing the proliferation of incentive schemes have started to be implemented in, for example, Mauritius, Panama, Thailand, and

the Philippines. In the Philippines, the number of different schemes is being reduced from twenty to eight, and while the reformed program provides more generous incentives to new than to existing exporters, the scope for other, often arbitrary, discrimination has been greatly reduced by the reform.

Trade Policy Reforms - Exports

Because of the overriding concern with the balance of payments, measures which aim to achieve an increase in exports have been a part of every SAL-supported program as can be seen in Table 1. Most governments have undertaken to remove or modify policies which hurt exports directly. These are important steps in the direction of liberalizing the trade regimes.

These measures cover all phases of exporting, from establishing incentives to produce for export, to actively supporting export marketing activities. These include:

- o Removal of quantitative restrictions on exports
- o Elimination or liberalization of export licensing regime
- o Simplification of export administrative procedures
- o Increase of prices to encourage exports
- o Various financial support systems
- o Reform of taxation system for exports
- o Changes in processing and marketing stages of exports

Most quantitative limits on exports were relaxed in Turkey, and they were completely eliminated on coffee in Bolivia, maize in Thailand, and beef and coffee in Panama.

Export licensing was changed in Jamaica, which now automatically issues licenses;in Thailand, which has eliminated their necessity on rice exports and relaxed them for maize; and in Turkey, which has a new, greatly

liberalized system. In addition, administrative procedures have been simplified in Kenya, the Philippines, Mauritius, and Thailand. Such policy changes will not only increase exports and encourage exportable sector development through higher prices but also facilitate participation in exporting activity by reducing the associated red tape and paperwork. Equally important, when government interventions of this kind are removed, the scope for arbitrary and discriminatory bureaucratic decisions in enforcing compliance is reduced.

In thirteen countries, administered prices of exportable products have been increased. In Thailand, prices have been deregulated on all commodities; in Malawi and Mauritius, on all export crops. Rice prices have been raised in Bolivia and Guyana; sugar in Jamaica; and on coffee, cotton and cocoa in Togo. In several countries, provisions have been made to maintain future competitiveness of agricultural prices. In the Ivory Coast, for instance, producers' prices of rice, rubber, palm oil, coffee and cocoa will be reviewed annually to keep them from lagging behind world market levels. 1/ Because the SAL-recipient countries tend to favor industry heavily through protection and other policies at the expense of agriculture, these SAL-supported policy changes make an important contribution to reducing the bias against agriculture.

Taxation systems have been reformed as well. In Thailand, export taxes on rice and rubber were virtually eliminated. In Bolivia, they were

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1/ The same program assures, however, that industrial prices will be at least 40 percent above world market levels.

eliminated on mining, which is its primary export sector. And in Turkey, the tax rebate system was expanded.

The processing and marketing stages have also undergone changes which help liberalize the export sector in Turkey, Thailand and Jamaica. In Turkey, exporters are no longer required to buy domestic inputs. In Thailand, an export processing zone has been established, and the export marketing of livestock has been deregulated. A significant change in Jamaica has been the replacement of inefficient, monopsonistic public marketing organizations for the coffee, cocoa, and citrus industries with private export marketing firms.

Under some SALs, governments have taken positive steps to create conditions where production and exports can take place on a free-trade basis, by providing improved institutional arrangements with simplified procedures. Two examples are the Philippines and Turkey, where the establishment or expansion of free trade zones or bonded warehouses were included in the loans. There is room for governments to take an active role in the export sector-- the key is to switch government involvement from control to support of economic activity, shifting the control function toward support of competitive interplay of individual decisions.

Exchange rate developments

The export and import policy changes comprise ambitious packages which seek to reduce reliance on discriminatory government direction in the allocation of resources and development of activities in tradeable sectors of the SAL-recipient countries. To complement the attempts to increase exports

and liberalize imports, and to improve the balance of payments, most of the SAL-supported programs have included depreciations. Only in Guyana, Panama, and the West African countries (the Ivory Coast, Senegal, and Togo), have devaluations or "maintenance of realistic exchange rates" not been a part of the structural adjustment programs.

A depreciating currency is important for trade liberalization in several respects. Chronic balance of payments difficulties 1/ imply that there is an excess demand for tradeable goods (i.e. imports, and import-competing and exportable goods). A depreciation can address this problem directly by raising the domestic-currency prices of exports and imports because this will provide incentives for increased production and reduced consumption of tradeable goods. Maintaining an exchange rate which undervalues foreign currency means that the excess demand for tradeables comes to be rationed by quantitative restrictions on imports and this is a highly inefficient way of managing the balance of payments. 2/ When the domestic currency is overvalued, governments are, in addition, often drawn into

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1/ A "balance of payments problem" has been a pre-requisite for obtaining a SAL. Indeed, ten of the SAL-recipient countries (Bolivia, Guyana, Jamaica, Malawi, Pakistan, Panama, Senegal, Togo, Turkey, and Yugoslavia) have sought debt-relief or debt-restructuring agreements, and seven have renegotiated their debts more than once. No SAL document suggests increased commercial borrowing as a viable alternative to reducing current account deficits over the medium term.

2/ Adjusting the excess demand for foreign exchange by quantitative rationing of imports rather than by a devaluation was found to be at least three to four times more costly in terms of lost GDP by K. Dervis, J. de Melo, and S. Robinson, "A General Equilibrium Analysis of Foreign Exchange Shortages in a Developing Economy", World Bank Staff Working Paper No. 443, January 1981.

introducing various export incentive schemes to compensate for the damage done to export development by the inappropriate exchange rate. 1/

If imports are restrained by quantitative controls, the depreciation alone will have a "liberalizing" effect since it will increase the domestic-currency prices of imports by a common proportion. Because for severely restricted imports, the domestic market prices need not rise at all (as the depreciation will only reduce the excess profits of the importers) while domestic market prices of unrestricted imports will increase by the full extent of the depreciation, the policy-induced differences among domestic prices of imports will be reduced. 2/ This permits the composition of imports to be worked out more competitively as domestic prices become more closely related to world prices.

A depreciation can also make import liberalization easier and more likely to be sustained. By raising the domestic-currency prices of imports, the depreciation can mitigate the possible adverse impact of import liberalization on import-competing sectors. The depreciation makes import liberalization sustainable because the government becomes better able to resist the pressures for restraining imports by other means. With an overvalued domestic currency, all imports are "cheap" for domestic users, and to limit imports the government is then pulled into having to decide which imports to restrict more and which less. When it has to assume this

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1/ On the ambiguous efficiency effects of export subsidies, see, for example, the paper by Richard Snape, "Subsidies of International Concern", February 1984 (draft). Additional arguments against such schemes are in the last section of this paper.

2/ For illustrations, see Anne O. Krueger, Liberalization Attempts and Consequences, NBER, 1978, Chapter 6.

assignment fuction, the government becomes open to protectionist pressures. Hence a depreciation permits the government to avoid having to make difficult decisions about the composition of imports. Based on a survey of past trade liberalization attempts, "(the conclusion is) obvious: failure to devalue by a sufficient margin will prevent sustained liberalization". 1/

There are severe analytical difficulties in estimating the equilibrium level of the real exchange rate and in determining the change required to attain such a level. 2/ It is, however, clear that an appreciation would intensify pressures against import liberalization and would prevent a resolution of the balance of payments problems that the SAL-supported programs seek to achieve. A measure of the success of the SAL-recipient countries in maintaining realistic real (price-level-deflated) exchange rates is evident in Table 4 and on the attached charts of movements in real exchange rates since 1976. 3/

The real exchange rates have increased, (i.e. the domestic currencies have depreciated), in several cases dramatically, in most countries since they have started implementing the structural adjustment programs. Only four of the sixteen countries have had real appreciations in excess of five percent during the period covered by the SALs: Bolivia, Guyana, Jamaica, and the

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1/ Ibid, p. 231.

2/ SAL documents do not even give an indication of the extent of initial overvaluation, much less of the magnitude of adjustment required for the programs to succeed. The equilibrium exchange rate clearly depends on trade policies and other incentive programs; these are changing under SALs. Unfortunately, data are not available on the magnitude of these changes during the programs.

3/ An appended digression on real exchange rates relates the real depreciations required for adjustment to the measures in Table 4.

Philippines. These four countries have experienced relatively high inflation rates (in 1982-83, Bolivia's has been second highest in the world) and have failed to make compensating adjustments in their exchange rates.

Neither the IMF nor the Bank has suggested a devaluation in Guyana initially; at present the IMF is recommending a devaluation of about 100 percent. In the Philippines, expansionary policies with increased foreign borrowing were followed till 1982, and the increasing overvaluation has been corrected only recently; the abrupt reversal in policy is especially evident on the chart.

In Jamaica, the official exchange rate has ceased to be relevant for more than 50 percent of export earnings and for other than oil, food, and some essential goods imports, since the black market was decriminalized in March 1981. The parallel rate in this sizeable market was more than 40 percent above the official rate during the first half of 1983. A 77 percent nominal devaluation occurred at the end of 1983. 1/ The official exchange rate has increased more since then, and the parallel market has been eliminated by the devaluation. In the case of Jamaica, the figures in Table 4 are, therefore, a misleading indicator of the appropriateness of exchange rate developments for import liberalization.

Real depreciation has occurred even in the West African countries which could not devalue their currency to improve the competitiveness of their tradeable sectors. This is because they maintain a fixed parity vis-a-vis the falling French franc; moreover, inflation in the Ivory Coast and in Senegal has been lower than inflation in France since 1980. Similarly, in Panama

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1/ This has satisfied the condition on maintaining export competitiveness for the release of the second tranche of the second SAL to Jamaica.

(where the US dollar is the currency) inflation has been less than US inflation during the last three years, permitting a stable real "exchange rate" for Panama despite the appreciation of the US dollar.

Among the other countries, only Malawi, Thailand, and to a lesser extent, Pakistan, have avoided real appreciations by achieving inflation rates lower than those in their trading partner countries. Prices have been rising especially fast in Turkey and Yugoslavia so that the nominal trade-weighted depreciations have been dramatic: 105 percent in Turkey and 157 percent inYugoslavia between 1980 and 1983. Finally, because of more moderate inflation rates, less drastic nominal devaluations have been carried out in Kenya, Korea, and Mauritius.

In summary, except in Bolivia and Guyana, and until recently in Jamaica and the Philippines, macroeconomic conditions and exchange rate policies have enabled the SAL-recipient countries to move their real exchange rates in the appropriate direction. Since past trade liberalization failures were nearly invariably accompanied by real appreciations, the trade regime reforms supported by SALs seem to have a better chance of success.

Conclusion

The Structural Adjustment Loan programs contain many instances of genuine trade liberalizations. The policy changes involved are likely to be of continuing benefit to the implementing countries and to their

trading partners. These changes constitute the first steps of important attempts to diminish measures which harm efficient import substitution and export development. In most countries, this process of reform has only begun, however, and the ultimate success of the reforms hinges on their continuation. The exchange rate developments seem to have been appropriate in this respect. But it is important to recognize that the implementation of trade liberalization programs is a process in which objectives and criteria will be continuously subject to debate. The history of administrative decision processes in developed as well as developing countries suggests very strongly that trade liberalization programs are doomed to failure unless their objectives are direct, explicit, and continuously kept in the public view.

TABLE 1

IMPORT POLICY CHANGES PROPOSED IN SAL-RECEIVING COUNTRIES

	AFRICA					ASIA				LAC				EMENA		
	Ivory Coast (81,83)	Kenya (80,82)	Malawi (81,83)	Mauritius (81,83)	Senegal (80)	Korea (81,83)	Pakistan (82)	Philippines (80,83)	Thailand (82,83)	Bolivia (80)	Guyana (81)	Jamaica (82,83)	Panama (83)	Turkey (80,81,82,83)	Yugoslavia (83)	15
Modifications of quantitative restrictions																
Replace positive by negative list							X							X+		2
Abolish quotas/introduce licensing														X		1
Tariffs to replace QRs generally	X	X*		S			S					X		X	S	7
Tariffs to replace QRs selectively/temporarily	X	X*		S		X		X					X	S	S	8
Changes in tariffs																
Lower average tariff		X*				X		X	X					X		5
Reduce dispersion in tariff rates	X	X*				X		X	X					X		6
Lower tariffs on final goods						X		X	X					X		4
Increase tariffs on inputs	X							X*	X					X		4
Increase tariffs/import surcharge**		X	X		X		X	X	X							6
Other																
Reduce import duty exemptions	X*	X						S	X	S						5
Reduce import deposits								X+						X		2
Remove licenses/simplify procedure		X				X	X	X	X		X+	X+		X+		8
Transitional program for affected sectors		S*				X		X	X			X		S		6
Study of protection/pattern of incentives	X	X*		X*		X	X*		X			X		X*	X	9

* = not done as envisaged or delayed.

** = not SAL recommendation except in both SALs for Malawi, as a resource-mobilization measure; also recommended in SAL for Senegal.

\+ = especially or exclusively for inputs for export production.

S = study.

TABLE 2

EXCHANGE RATE RECOMMENDATIONS AND EXPORT POLICY CHANGES PROPOSED IN SAL-RECEIVING COUNTRIES

	AFRICA						ASIA				LAC				EMENA		
	Ivory Coast (81,83)	Kenya (80,82)	Malawi (81,83)	Mauritius (81,83)	Senegal (80)	Togo (83)	Korea (81,83)	Pakistan (82)	Philippines (80,83)	Thailand (82,83)	Bolivia (80)	Guyana (81)	Jamaica (82,83)	Panama (83)	Turkey (80,81,82,83)	Yugoslavia (83)	16
Maintain a realistic exchange rate		X	X	X			X	X	X	X	X		X	NA	X	X	11
Relaxation of existing impediments																	
Reduce/eliminate export tax					S					X	X						3
Raise prices of agricultural products	X	X	X	X	X*	X			S	S	X	X	X	S	X		13
Remove export licenses/export bans			X							X				X	X		4
Simplify export procedure		X		S		X	X		X	X				S	X		8
Direct incentives to exporters																	
Subsidize exports		X			X				X						X		4
Subsidize world VA in exports	X																1
Reimburse/exempt import duties				X				X	X	X				X	X	X	7
Reimburse/reduce indirect taxes										X					X		2
Reimburse/reduce direct taxes				X				X	X						X		4
Indirect incentives to exporters/ new institutions																	
Export Development Fund/access to credit	X	S		X			X		S	X		X*	X*		X	X	10
Export insurance	S	S					X								S	X	5
Foreign exchange retention/preferential access to foreign exchange												X	X		X		3
Free trade zones/bonded warehouses				X					X	X			X		X		5
Increase export promotion		S*	X	X		S	S			S	S	X	X		X		10
Government investment in export projects				X		S						X					3

S = study.

* = not done as envisaged or delayed.

TABLE 3

PRE-SAL PROTECTION IN SOME SAL-RECEIVING COUNTRIES

Country	Data		Nominal Protection Average	Nominal Protection Range across sectors	Effective Protection Average	Effective Protection Range across sectors
Ivory Coast	1972, 79 firms in 15 industries 1/		18%	-28 to 60%	55%	-44 to 294%
	1978 I-O Table, 21 tradeable sectors 2/			15 to 56%		-52 to 6451%
Jamaica	1978 survey of firms in 15 manufacturing sectors 3/		34%	4 to 87%	50%	-35 to 195%
	1982 tariff rates 4/		7.5%			
Korea	tariff schedule 5/	1982	23%*	0 to 150%*	20-30%	
		1984	21%*	5 to 50%		
		1988	17%*	5 to 30%		
Mauritius	tariff schedule 1983 6/			0 to 212%*		
Pakistan	1980-81, 750 firms in 90 industries 7/		89%	-46 to 356%	60%	-89 to 3251%**
Philippines	21 commodity categories 8/	1980	43%*	10 to 83%*		
		1985	28%*	10 to 48%*		
	67 manufacturing sectors 8/	1980			70%	-18 to 873%
		1985			31%	-13 to 216%
Senegal	1972 firm survey, 14 manufacturing subsectors 9/		25%	-2 to 49%		-7 to 55%
Thailand	9 industrial sectors 10/	1974	31%	0 to 150%	19%	-46 to 946%
		1978	27%	9 to 81%	70%	4 to 496%
	tariff schedule 11/	1982		0 to 100%*		
		1983		5 to 60%		
Turkey	1981, 123 firms in 14 manufacturing sectors 12/		32%	5 to 53%	81%	-19 to 550%**

* tariff rates only.

** excluding sector(s) with negative value added.

Sources:

1/ G. Pursell and T. Monson (World Bank, Draft), Table A3.
2/ Yoon Joo Lee (World Bank, Draft), Table IV.
3/ M. Ayub, Made in Jamaica, pp. 77, 78.
4/ President's Report for SAL II, Report No. P-3559-IM, p. 24.
5/ President's Report for SAL II, Report No. P-3658-KO, p. 16.
6/ President's Report for SAL II, Report No. P-3500-MAS, p. 15.
7/ S.N.H. Naqvi and A.R. Kemal, The Structure of Protection in Pakistan: 1980-81, Pakistan Institute of Development Economics, 1983, p. 32.
8/ R.M. Bautista, "The 1981-85 Tariff Changes and Effective Protection of Manufacturing Industries," University of the Philippines Discussion Paper 8213, July 1982, Tables 3 and 4.
9/ World Bank, Research project on West Africa (1975), Table III-1.
10/ World Bank (1980). "Industrial Development Strategy in Thailand," Report No. 2804a-TH, p. 32.
11/ President's Report for SAL II, Report No. P-3481-TM, pp. 20, 71.
12/ F. Yagci (1983 draft), Ch. 4.

TABLE 4
TRADE-WEIGHTED EXCHANGE RATES

	REAL 1/					NOMINAL 3/
First SAL in 1980:	1979	1980	1981	1982	1983	1983
Bolivia	100	96	71	69	67	307
Kenya 2/	100	100	104	101	107	132
Philippines 2/	100	95	92	89	106	127
Senegal	100	105	116	113	112	108
Turkey 2/	100	129	127	135	145	501
First SAL in 1981:						
Guyana		100	91	82	70	91
Ivory Coast 2/		100	108	116	123	116
Korea 2/		100	98	99	107	114
Malawi 2/		100	96	99	112	105
Mauritius 2/		100	100	103	100	104
First SAL in 1982:						
Jamaica 2/			100	96	93	99
Pakistan			100	107	112	111
Thailand 2/			100	102	102	96
First SAL in 1983:						
Panama				100	100	97
Togo				100	104	102
Yugoslavia				100	130	169

1/ Annual average levels. An increase in the index corresponds to a depreciation. Consumer price indices were used to deflate nominal bilateral exchange rates vis-a—vis 8 to 12 principal trading partners for countries where wholesale price series up to 1983 are not available. Wholesale prices were used to deflate only for Korea, Pakistan and Thailand. 1980 trade weights, except for Senegal where 1979 trade weights were used. The exchange rate and price data are from the International Financial Statistics (IMF) and the trade weights from Direction of Trade (IMF)

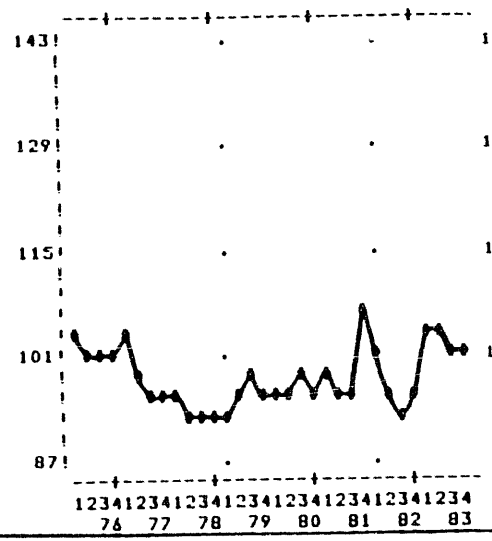
2/ These countries have received additional SALs.

3/ Index of the nominal trade-weighted exchange rate, same base years and weighting as for the real indices.

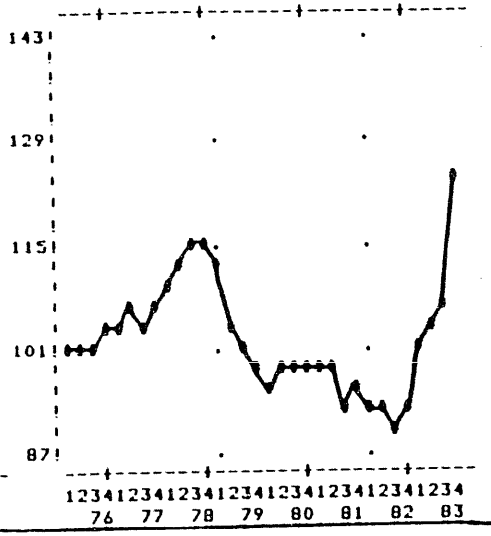
REAL TRADE-WEIGHTED EXCHANGE RATES (1975 = 100)

COUNTRIES WITH FIRST SAL IN 1980

KENYA

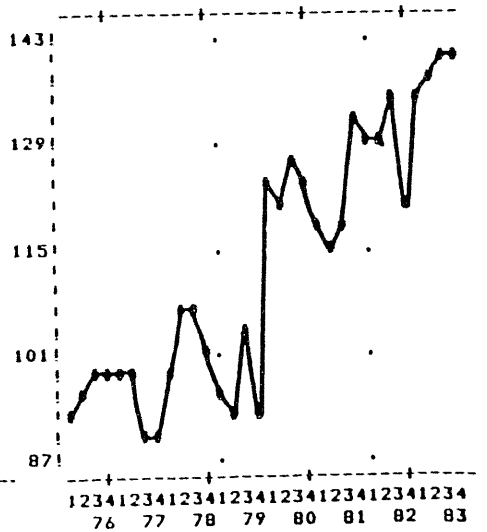


PHILIPPINES



SENEGAL

TURKEY

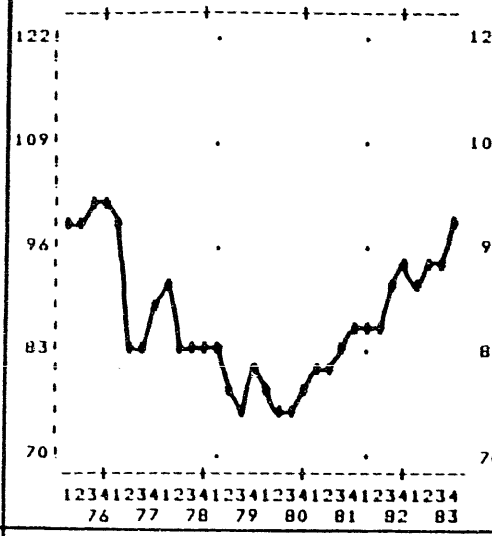


Source: Same as Table 4.

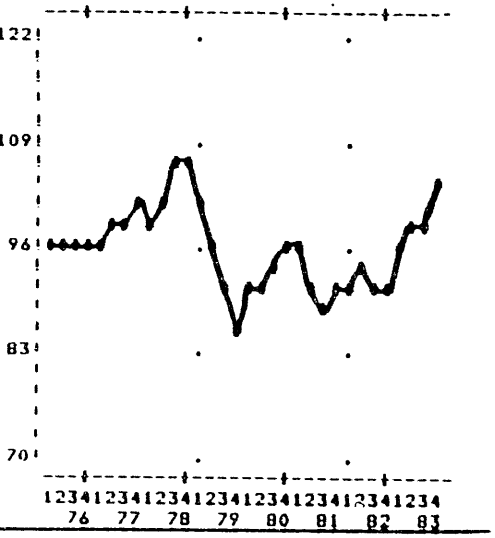
REAL TRADE-WEIGHTED EXCHANGE RATES (1975 = 100)

COUNTRIES WITH FIRST SAL IN 1981

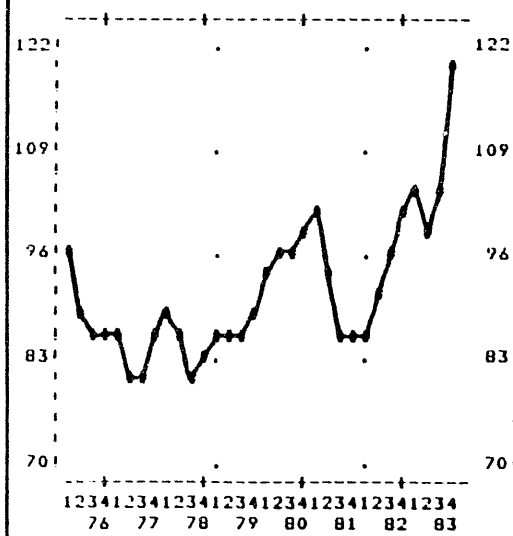
IVORY COAST



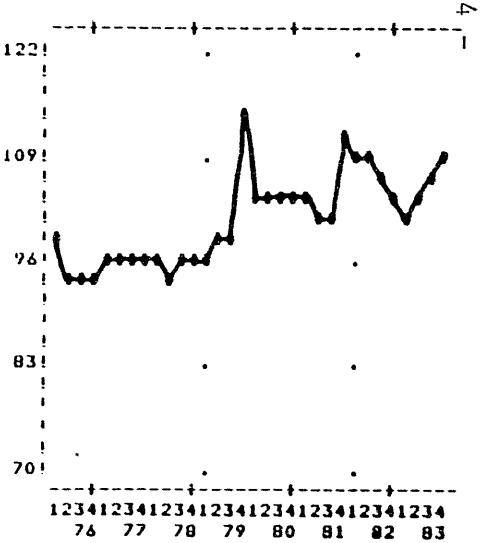
KOREA (WPI-DEFLATED)



MALAWI



MAURITIUS



Source: Same as Table 4.

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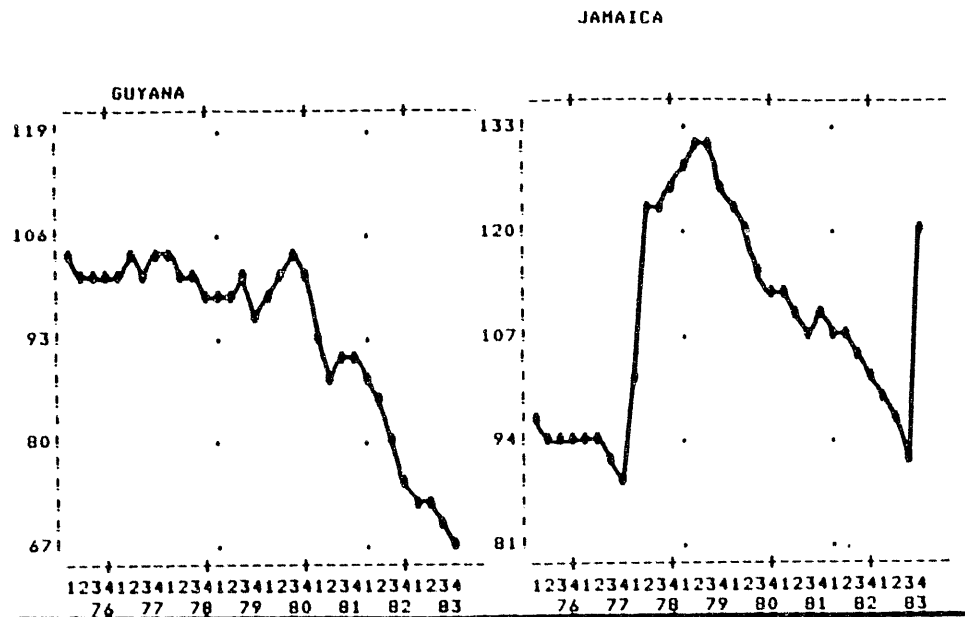
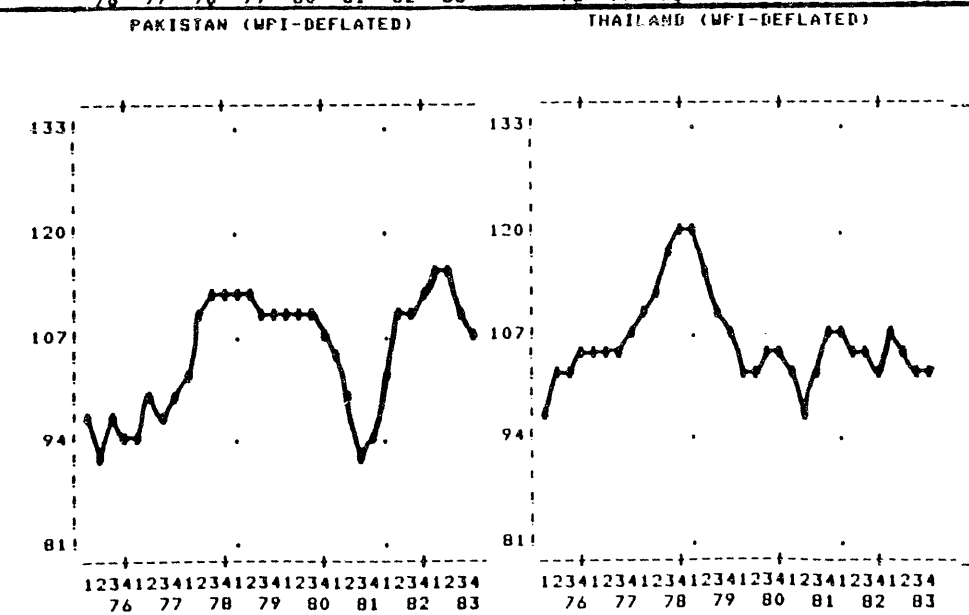
REAL TRADE-WEIGHTED EXCHANGE RATES (1975 = 100)

COUNTRIES WITH FIRST SAL IN 1982 AND GUYANA (1981)

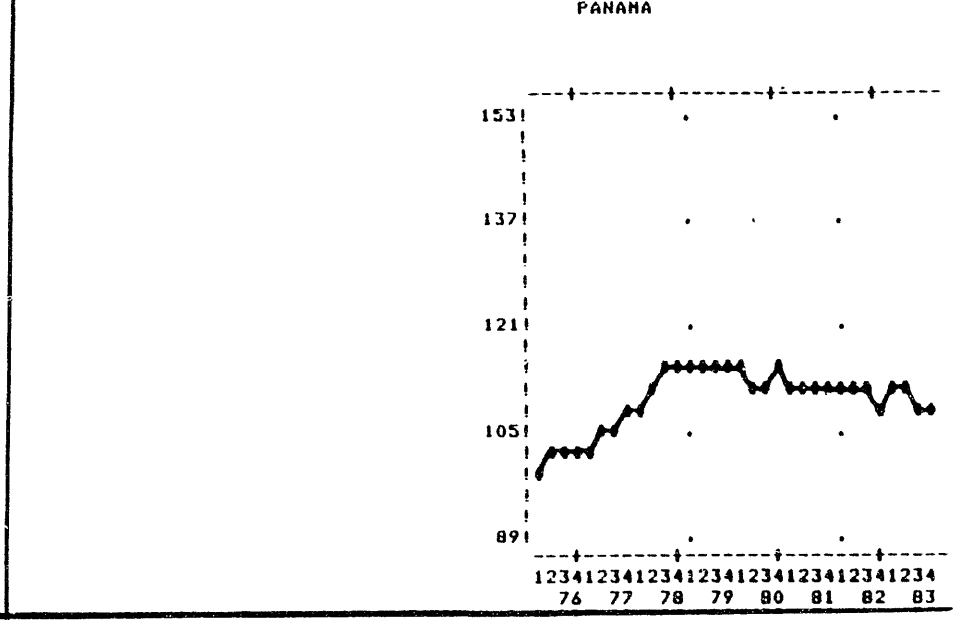


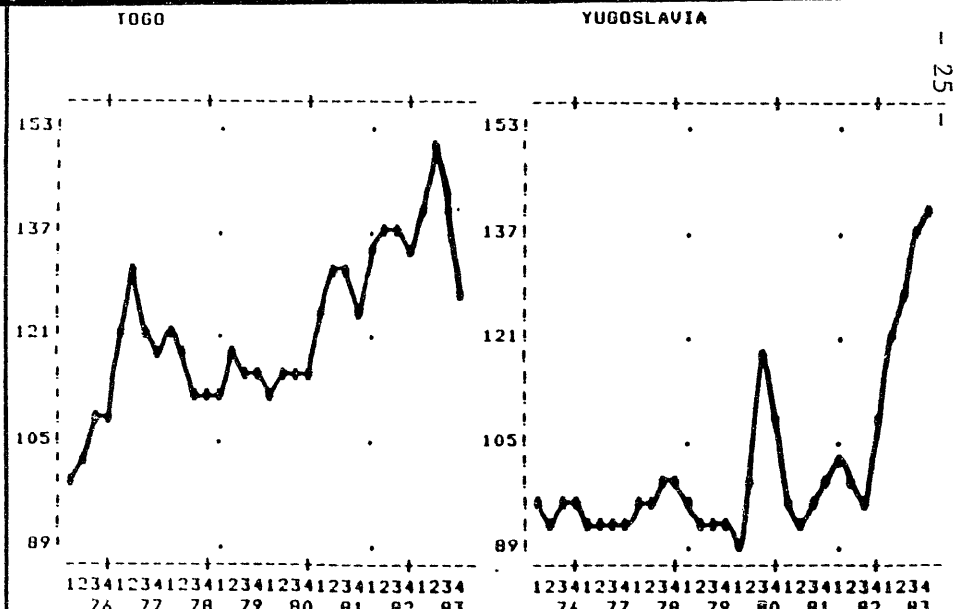


Source: Same as Table 4.

REAL TRADE-WEIGHTED EXCHANGE RATES (1975 = 100)

COUNTRIES WITH FIRST SAL IN 1983

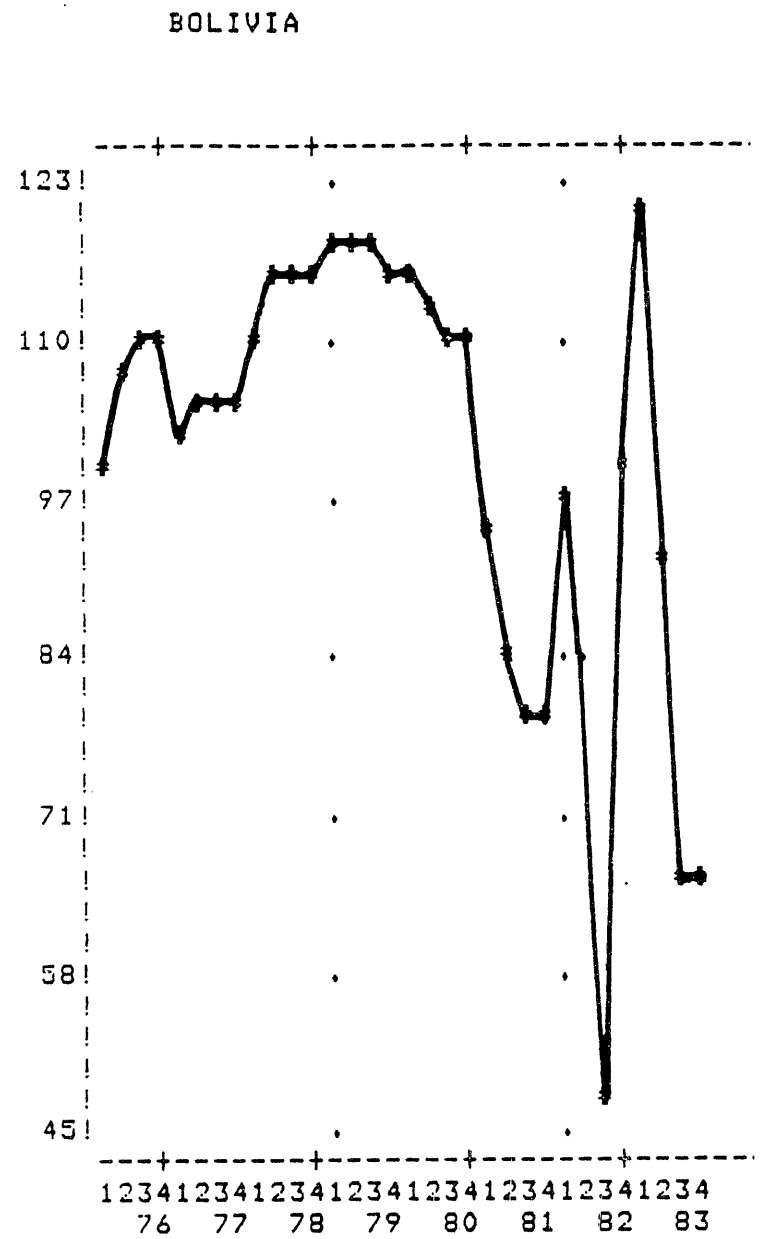




Source: Same as Table 4.

REAL TRADE-WEIGHTED EXCHANGE RATE (1975 = 100)

(SAL IN 1980)



Source: Same as Table 4.