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**TRADE AND FISHERIES GLOBALISATION:
ISSUES FOR DEVELOPING AND DEVELOPED COUNTRIES**

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**TRADE AND FISHERIES GLOBALISATION:
ISSUES FOR DEVELOPING AND DEVELOPED COUNTRIES^{1 2}**

Introduction

1. The OECD has recently completed a major study on Trade and Structural Adjustment (OECD, 2005a). The aim of the study is to identify, for developed and developing countries, the requirements for successful trade-related structural adjustment via the reallocation of labour and capital to more efficient uses, while limiting adjustment costs for individuals, communities and society as a whole. Adjustment here, thus refers to the use of a range of policy instruments to facilitate adaptation to a structural (rather than transitory or cyclical) change in the economic environment - in response to the emergence of new sources of competition, technological change, resource constraints or shifting consumer preferences. This paper draws extensively on the OECD Study, with a particular focus on experience in the fisheries sector.

Globalisation in Perspective

2. Structural adjustment is a necessary counterpart of globalisation. It is the process whereby resources move from declining to expanding areas of activity. While the principle of resource mobility may be widely accepted, the pace or scale of changes involved will often be the cause of public concern. It is useful therefore to put the process of structural change in its proper perspective. There is a widespread fear that in the advanced industrialised economies, there is an unrelenting and accelerating shift of employment out of primary industries and manufacturing into the service sector. This is not in fact the case. Though the relative weight of the service sector has increased (see below), the *rate* of structural change has not increased. There is not an ever accelerating shift of OECD employment out of manufacturing and primary activity into services. Indeed, as OECD service industries become more exposed to international competition, the trend whereby the transfer of resources is less from primary and secondary activity to services than from one service activity to another is likely to strengthen. (Kongsrud and Wanner, 2005) (See Box 1).

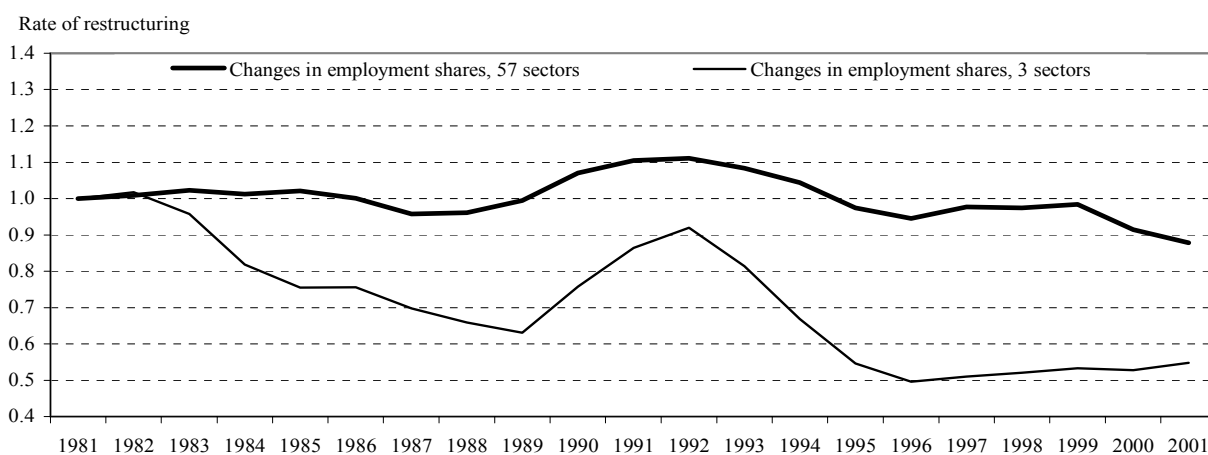
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² The views expressed in this paper are those of the author and do not necessarily reflect those of OECD Member Countries.

Box 1 The rate of structural change has not increased

The rate of structural change cannot be easily measured, as it involves changes within as well as between firms, industries and regions. Available indicators suggest, however, that the rate of change has not increased in the OECD area. Developments in sectoral employment shares suggest, for instance, that the rate of change has been fairly stable over the past two decades (see figure below). At the same time, labour adjustments between primary industries, manufacturing and services have declined. This indicates that structural changes in employment patterns take place to an increasing extent between broad industries within the service sector, as shifts of employment from goods-producing sectors to services have tapered off.

The rate of change in sectoral employment patterns ¹ OECD average, three-year moving average, index 1981=1



Notes

The rate of restructuring is calculated as: $0.5 \sum_i (N_{i,t} - N_{i,t-1})$, where $N_{i,t}$ denotes the share of sector i in total employment at time t . An unchanged employment pattern returns an indicator value of zero. The indicator is calculated for three sectors (primary, secondary and tertiary industries) and 57 sectors (dividing services into 55 sectors).

Simple average of 20 OECD countries.

1. Such simple indicators are, however, subject to certain limitations. They are, for instance, sensitive to the chosen aggregation level, and pick up the relative expansion and contraction of sectors over the business cycle.

Source: The OECD STAN database for Industrial analysis and Groningen Growth and Development Centre Database.

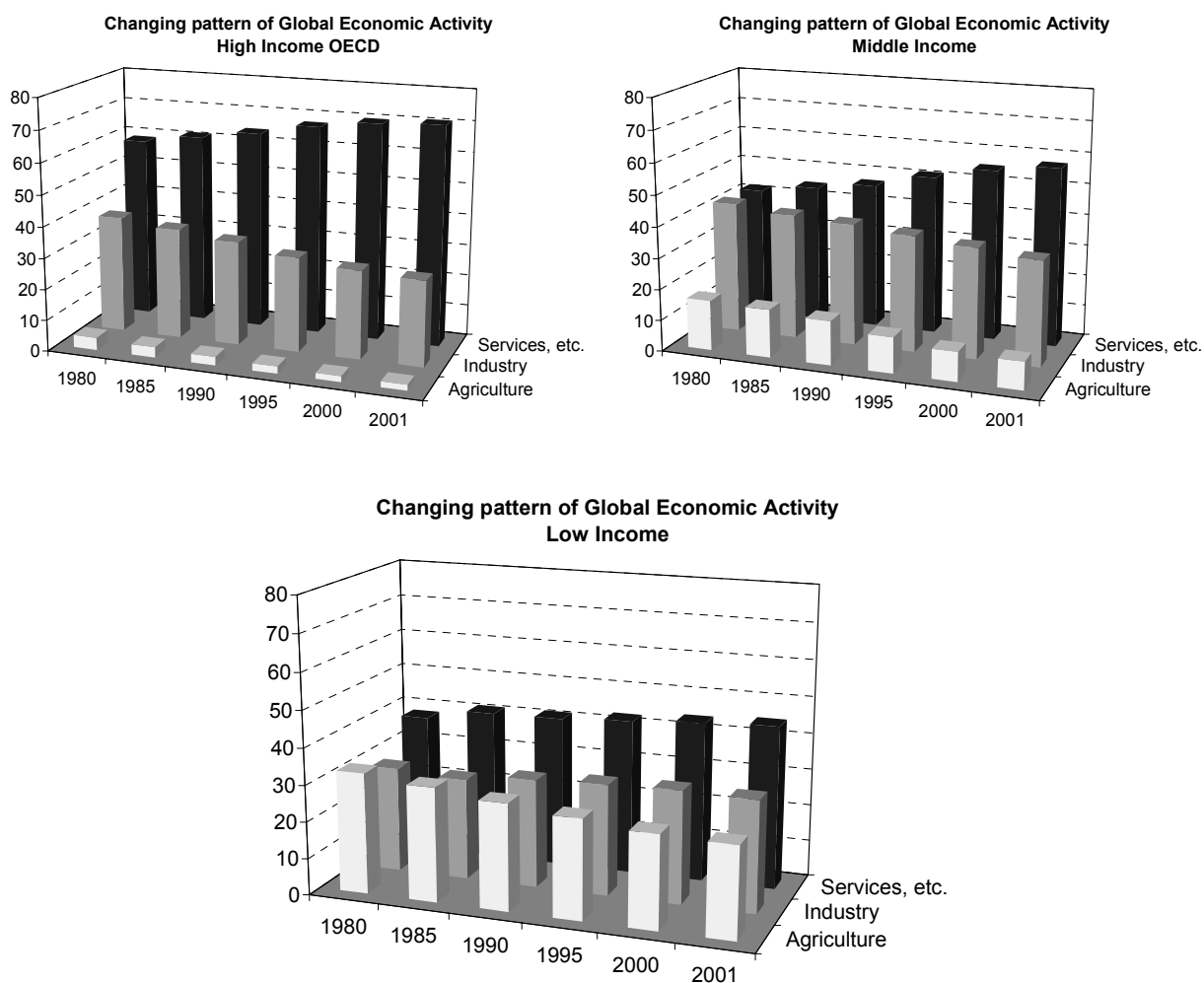
A Changed Context

3. But things are not standing still. Conditions are very different from those that prevailed when structural adjustment was last examined by OECD in 1978. There are more players on the world stage. Back in 1978, China, under Deng Xiaoping, was only just embarking on the process of reform and opening up that has seen it become a major force in the world economy. There has been an acceleration in technological innovation. This is hard to measure, but if one takes a range of indicators, including the scale of R&D and patents activity, rises in multi-factor productivity or the transfer of technology from developed to developing countries, then there are strong grounds for believing that the pace of technological development and diffusion has increased.

4. There has also been a change in societal values - not least as concerns the environment. This has had far-reaching effects ranging from the demise of the production of steel in open-hearth furnaces to controls on fishing in mangrove areas.

5. And the structure of economic activity has changed radically, with services now accounting for a much larger share of GDP in all country groupings. (See Figure 1).

Figure 1 The changing pattern of global economic activity
% of GDP



Source: World Bank (2004), World Development Indicators, World Bank Washington, D.C.

A Differentiated Picture

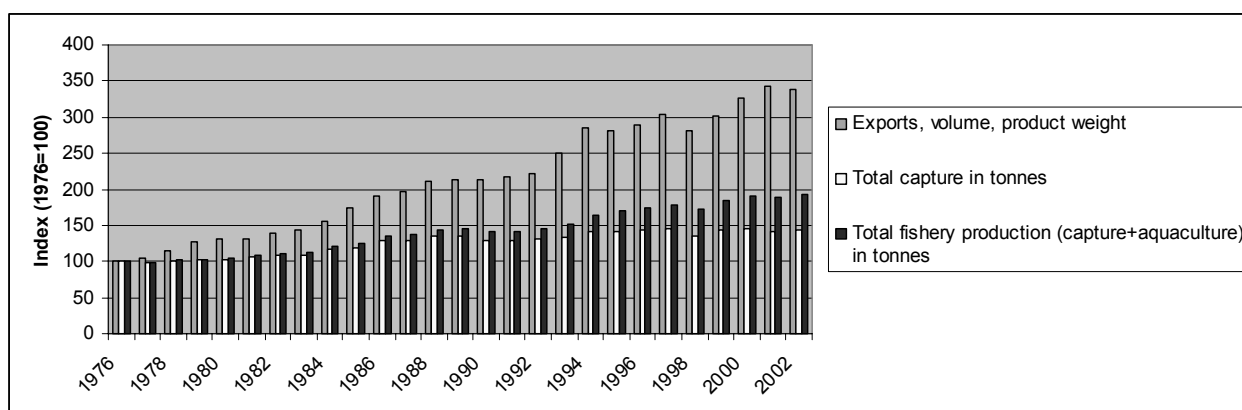
6. The context is not only different, it is also more differentiated. The nature of structural adjustment is not uniform.

- It differs from one sector to another. For example, the adjustment challenge is very different in a sector which is declining, such as agriculture, than it is in a sector which is expanding, such as health services. Behind these differences are key variables such as demographic change or fundamental links between demand and income growth; the process of structural change has deep roots. For a discussion of the adjustment challenge in the fisheries sector see Box 2.

Box 2 The Adjustment Challenge in Fisheries

There is a high degree of interdependence among fish and seafood markets. Fishing vessels (capital) are mobile and many of them (in terms of fishing effort) can fish all over the world, and fish resources do not know national boundaries. These features have helped underpin a globalisation process that has taken place through various channels, including fish trade, investment in fisheries and use of fishing capacity as a service. Owing to increasing resource constraints, OECD markets have become more dependent on imports from developing countries. The globalisation process is reflected in Figure 2 which provides an index of quantities of world production and world exports from 1976 to 2002. It is clear that trade has increased more rapidly than production, suggesting that markets have become more interdependent.

Figure 2 Globalisation at work, 1976-2002



Source: FAO. Data exclude the production and trade of marine mammals, crocodiles, corals, sponges, shells and aquatic plants

What makes fisheries an interesting case in terms of globalisation is that several events have helped enhance and support the interdependence of markets and resources. The extension of EEZs to 200 miles as from 1977 led to an important redistribution of fishing possibilities without any immediate change on the demand side. Consequently, two important changes took place: an increase in trade in fish and fish products and an increase in trade in fishing (access) rights. Furthermore, the extension of the EEZs led to a development of fisheries in developing countries that had not shown great interest in “industrialisation” of the fishing industry. Another important contributing factor has been technological change. For example, technological progress has increased the efficiency of fishing vessels, and improved transport systems have made it possible to transport fish across long distances. Finally, the increasing overexploitation of resources in the developed world during the last decade has added fuel to the globalisation process.

The major future challenge for policy makers, as external pressures continue, is to ensure that resources are managed in a sustainable and responsible way. This is a challenge for developing and developed countries alike, although, owing to different fishing industry structures and resource availability, the use of specific policy mixes may differ.

The relationship between trade and structural adjustment in fisheries is somewhat different from that in most other sectors where globalisation and the opening of trade can trigger adjustment. While this also occurs in fisheries, an additional strong reverse causality exists as well. This is because fishers catch what nature and fishery managers allow. Hence, the quantities allowed in fisheries determine prices, whereas in other sectors it is prices that determine the amount suppliers are willing to supply the market. Therefore, changes in both resources and in the market initiate pressure for adjustment in fisheries.

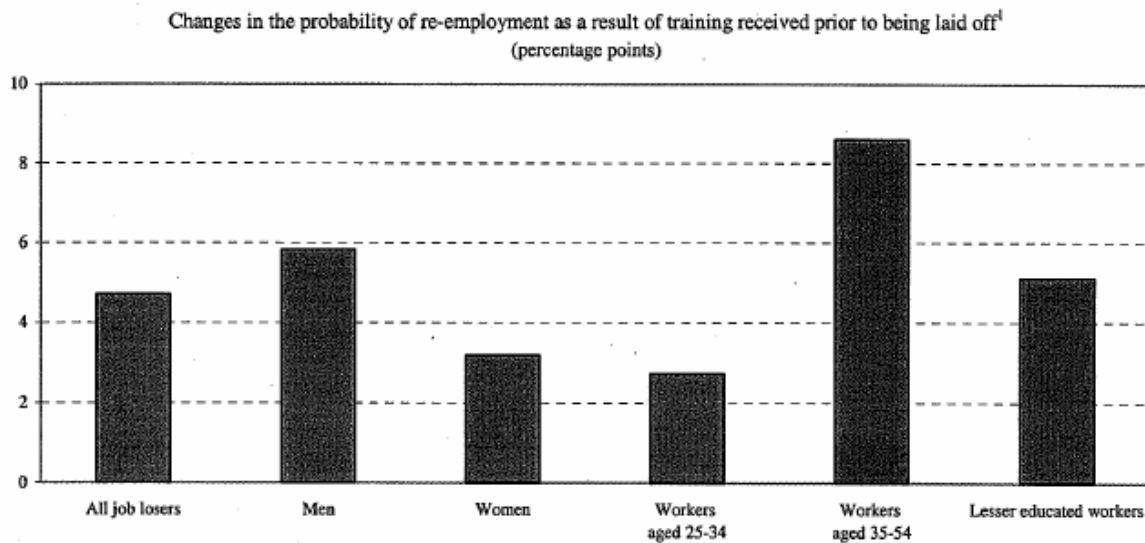
Box 2 The Adjustment Challenge in Fisheries (continued)

On the supply side, the decline in fish stocks is the most important driver for adjustment. It is caused both by overexploitation and by inappropriate management, ignorance about the resource base (*e.g.* stock levels), pollution and changing natural conditions (such as a change in water temperature, or natural phenomena like El Nino). The intensive development of aquaculture over the last two decades has compensated for some of the pressure for structural adjustment caused by declining fish stocks. Farmed species, however, are not necessarily the same as captured species. This is important since there is a marked degree of differentiation between fish species and product forms in fish markets owing to the availability of many different fish species (more than 800 are commercialised globally), combined with differences in eating habits developed over centuries. Hence, substitutability is limited, although it exists for similar and closely related species. Fish markets for individual species are closely linked internationally.

On such markets, producer and consumer countries necessarily adjust when the supplies of some (farmed) species increase and others (captured) decline. Hence, both the increase in aquaculture and changes in species composition have required structural adjustment. Since aquaculture is expected to increase in future, there will be further adjustment to compensate in some instances, but certainly not all, for the declines from capture fisheries.

On the demand side, several factors create pressure for adjustment. Globalisation of markets for final products and for raw materials has led to specialisation through outsourcing. This trend is expected to continue, in particular with the further integration of China in world trade. A rise in incomes in developing countries, owing to a rapidly growing urban middle class, also causes adjustment pressures, and demand for fish is expected to continue to increase. Greater demand for convenience foods and thus for secondary processed fish products has been a factor in adjustment in developed countries. Finally, global concentration in the retail sector has caused pressure for adjustment in the fisheries sector as elsewhere. Retailers have increasingly used market power to impose standards and quantities on their suppliers.

- The nature of the adjustment challenge also differs from one country to another, depending on respective levels of development. Underlying the trade-related adjustment challenge facing developing countries is a broader vulnerability which may arise because of formerly high levels of protection and low levels of productivity and technological sophistication.
- And the adjustment challenge can also differ from one group in society to another. There is even a gender dimension here. The benefits which job seekers get from training differ as between men and women (See Figure 3). This is consistent with research suggesting that employers more often organise and finance training for male employees than female employees. It appears that the training that women organise for themselves is less valued by prospective employers and that this difference could disadvantage women in periods characterised by high rates of structural change if their access to employer-sponsored training does not improve.

Figure 3 Training increases the probability of re-employment after job loss

1) OECD calculations based on the European Community Household Panel, waves 1 to 7 (1994-2000) for Austria, Belgium, Denmark, Finland, Germany, Italy, Ireland, the Netherlands, Portugal and Spain.

Source: OECD Employment Outlook, OECD, Paris, (OECD, 2004a)

A Shared Policy Framework: the Role of Trade

7. Notwithstanding this differentiated picture, we find that a common policy framework to facilitate structural adjustment is broadly applicable across sectors and across countries, admittedly with differing degrees of emphasis. Underpinning this framework is the need for liberal trade and investment policies. Trade is a vital engine for structural reform because of its contribution to economic growth. OECD analysis finds that a 10% increase in OECD trade intensity (exports plus imports as a percentage of GDP) over the past 20 years has raised GDP per capita by 4%.

8. As our case studies show, the particular channels by which trade (both imports and exports) and foreign direct investment help adjustment include by:

- fostering competitiveness and innovation, (See Box 3)
- improving access to essential inputs, whether raw materials, capital goods or services; and
- stimulating exports, by offering enlarged market opportunities.

Box 3 Trade and Trade Policies: Helping Adjustment

Australian shipbuilding

The system of government support to the Australian shipbuilding industry, dating back to 1940, consisted of “bounties” in the form of subsidies provided to offset the higher cost of domestic ship production when compared to that in the United Kingdom. Applicable only to ships bound for domestic use, this system discouraged investment, innovation and diversification of production away from large steel hulled vessels, which were increasingly being produced with more technological sophistication and at a lower cost by European and East Asian shipbuilders in the 1970s. Thereafter, a series of reforms to the Australian shipbuilding subsidy regime resulted in its complete removal by 2003. The effect was a reduction in the number of people employed in the Australian shipbuilding industry by nearly half (to 7434) between 1985 and 1996, and a three-fold increase in the output of the domestic shipbuilding industry over the same period. The vast majority of current production is now destined for export.

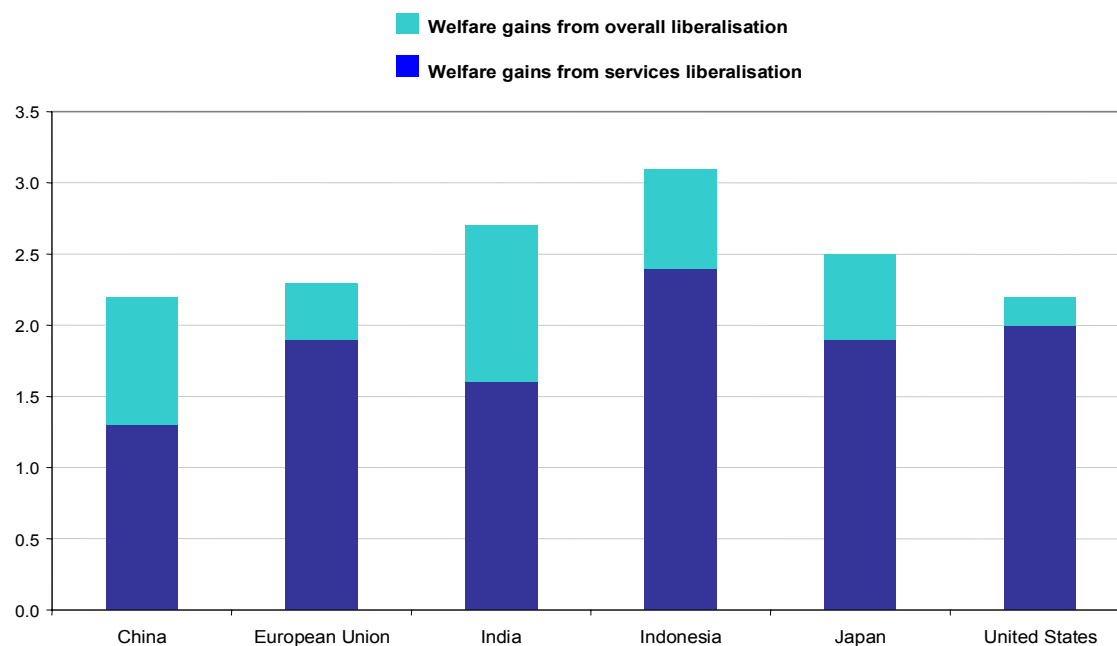
First revamped in the 1970s, the system of subsidies applied to the shipbuilding industry was recalibrated to support structural adjustment for long-term growth, export competitiveness and thus eventual phase out. Moving away from a cost-based approach to calculating subsidy amounts, to remove disincentives for efficiency and innovation, the nominal rate of assistance was also gradually tapered from 27.5 to 0 per cent between the early 1980s and 2003. Building on efficiency and technological advancement as criteria for receiving benefits under the new scheme and allowing for exported vessels to receive benefits in 1984 focused the domestic shipbuilding industry on developing a niche in which it would be internationally competitive. The result of these policies was a conversion of the domestic shipbuilding industry from one based on large steel hulled ships—already produced more efficiently by international competitors - to technologically cutting edge fast ferries for which there were few viable international competitors.

Gains from Trade in Services

9. In the context of structural adjustment, particular benefits arise from the liberalisation of trade in services. There are three reasons for this. First, the potential welfare gains - and therefore the breathing space in which to adjust - are likely to be much greater than in the case of goods liberalisation. The Michigan Model (based on GTAP) demonstrates this for a wide range of countries.

Figure 4 Gains from Services Liberalisation

% of GDP



Source: Chadha, R.D., D. Brown, A. Deardorff and R. Stern (2000). Discussion Paper No 459, School of Public Policy, University of Michigan, Ann Arbor, Michigan.

10. Second, given the dynamism of the service sector, adjustment strains can be more easily accommodated than with goods liberalisation. We intend to explore this proposition more fully in future work. And third, liberalisation of service inputs to the primary sector and manufacturing will help ease adjustment strains which those sectors may face. Ongoing work finds that if account is taken of barriers to services trade, the effective rate of protection in certain primary and manufacturing sectors actually turns negative; ie, because of service barriers industries are being taxed not protected (See Table 1).

Table 1. Impact of services barriers (SB) on effective rates of protection (ERP) in primary and manufacturing industries

ERP results

	Brazil		Morocco		Romania		Thailand	
	Without SB	With SB	Without SB	With SB	Without SB	With SB	Without SB	With SB
Forestry and wood products	(+)	(-)	(+)	(+)	(-)	(-)	(+)	(+)
Chemical, rubber, plastic products	(+)	(+)	(-)	(-)	(+)	(-)	(-)	(-)
Mineral products nec	(+)	(-)	(+)	(+)	(-)	(-)	(+)	(-)
Base metals and metal products	(+)	(+)	(+)	(+)	(-)	(-)	(-)	(-)
Motor vehicles	(+)	(-)	(+)	(+)	(-)	(-)	(-)	(-)
Transport equipment	(+)	(+)	(-)	(-)	(-)	(-)	(-)	(-)
Manufactures nec	(+)	(+)	(+)	(-)	(+)	(-)	(+)	(+)

Note: nec = not elsewhere classified.

The ERP is a measure of the protection provided to an industry by the entire structure of tariffs, taking into account the effects of tariffs on inputs as well as on outputs. These results show the increase or decrease in value added per unit in an economic activity that is made possible by the tariff structure relative to the situation in the absence of tariffs. The difference between ERPs that are calculated without considering services barriers and ERPs that take into account services barriers could be interpreted as an indication of the additional cost imposed by services barriers. In terms of services protection, the most recent estimates of barriers in telecommunications, banking, distribution, electricity, professional services and air and maritime transport were employed.

(+) refers to positive ERPs. And (-) refers to negative ERPs.

Not by Trade Alone: Complementary Policies

11. But trade cannot do it all. Trade policy is but one element among a range of measures that will be needed if structural adjustment is to be successful.

12. A sound macroeconomic framework that promotes stability and growth is clearly essential. Australia provides an example of both good and bad practice in the interlinkage between trade and macro policy. In 1973, tariffs were cut by 25% as an alternative to exchange rate appreciation; the cuts were strongly resisted by manufacturers and led to the introduction of quota protection which proved hard to dislodge. In contrast, 10 years later the AUD was floated, providing a necessary cushion for adjustments in the traded goods sector following general reductions in protection which began in 1988. The macroeconomic environment can also be particularly important for developing countries seeking to adjust to the revenue effects of tariff liberalisation. Bangladesh is a case in point (See Box 4).

Box 4 Macroeconomic Stability and Trade Liberalisation -important complements

Australia

Australia's experience gives strong support to the need for appropriate exchange rate policy. The floating of the AUD in 1983 (and the subsequent depreciation) arguably had two effects: it showed the need for real depreciation and the policy reforms to achieve this; it also cushioned adjustments in the traded goods sector following general reductions in protection which commenced in 1988.

Contrast this with the experience in 1973 when tariffs were cut across the board by 25% - a measure taken to avoid further revaluation of the AUD which would have blunted somewhat the minerals export boom. In other words, exchange rates were not allowed to reflect their market level. The manufacturing sector, which was already squeezed by the 'Dutch disease' effects of that boom, was then faced with a substantial cut in protection. The tariff cut created strong opposition which manifested itself in a subsequent shift to quota protection in key manufacturing industries (e.g. textiles, clothing and footwear, cars), and which proved very difficult to remove later.

Bangladesh

The challenge of managing a sound macroeconomic policy in tandem with economic liberalisation is clear in the case of Bangladesh. For a developing economy highly dependent on tariffs as a source of government revenue, sound macroeconomic policy has helped to maintain fiscal discipline in the face of declining tariff revenues resulting from trade liberalisation. Trade liberalisation was marked by a decline in the average effective rate of protection from 75.7 to 28.6 per cent between the periods 1990-91 and 1997-99. The process of trade liberalisation which continues today is notable as the government still relies on import tariffs for half of total tax revenues.

The apparent success of the macroeconomic framework to address structural adjustment was reliant on reform of the domestic tax regime to compensate for revenue loss from tariff reductions. Indeed, the fiscal discipline enabling reduction of the budget deficit from 5.1 to 3.5 per cent of GDP between FY2001-03 was a key factor allowing for the float of the exchange rate without major difficulties in May 2003; an achievement in the process of exchange rate liberalisation begun in 1994. In short, a dynamic framework of macroeconomic policies was important to meeting structural adjustments entailed by trade liberalisation, while maintaining the fiscal discipline necessary to support exchange rate liberalisation.

13. Institution building, strengthening of competition policy and regulatory reform are also necessary complements to open markets.

14. The notion of institution building takes on many forms, often with a particular resonance in developing countries. The development of the seafood sector in Thailand, for example, has benefited from a supportive institutional environment (See Box 5).

Box 5 Institutional support: Thai Seafood Industry

A range of sector-specific policies and services have targeted the seafood sector, under the auspices of the National Fisheries Policy Committee – chaired by the Prime Minister – and the Department of Fisheries within the Ministry of Agriculture. The latter is engaged in fishery conservation and research and development and has played an important role in developing the seafood sector, by providing technical and financial assistance. The National Food Institute (Ministry of Industry) undertakes research and offers training to raise competitiveness and help with food safety standards.

In addition, the government has taken various measures to promote more sustainable fishing practices in light of emerging environmental concerns, for example by establishing conservation zones, reducing the number of fishing vessels, promoting community-based fisheries and introducing regulations on fish farming in mangrove areas. The Frozen Foods Association and the Department of Fisheries have promoted a code of conduct on “Sustainable Marine Shrimp Culture” to address social and environmental impacts and problems related to diseases. Education and training, which are essential to raise awareness of rules and regulations among fish farmers, are also being offered.

15. The importance of competition policy has been highlighted in the experience of ASEAN.

16. A paper presented at a recent OECD conference on regulatory reform suggests that, in the face of changing market structure and competition, ASEAN countries need to review their price regulations for the entire transport sector. Otherwise, it is said, regulatory failure can pose a major obstacle to effective competition in the market. A common problem with price regulation in the region is the setting of "price ceilings" and "price floors" for regulated transport services. While maximum and minimum prices may in theory prevent a dominant player in the market from setting monopoly or predatory prices, in practice, they tend to have adverse consequences in markets where there is effective competition. A price ceiling provides a convenient "target price" for a cartel, while a price floor can restrain price competition. (Nikomborirak, 2005)

17. Effective structural adjustment also calls for labour market flexibility. This has many dimensions: unemployment benefit systems should provide adequate income support but also promote work incentives; employment protection should not hamper firms' ability to adjust and workers' incentives to change employer; wage setting systems need to be flexible; housing policies should not hamper regional mobility; and education and training should facilitate labour mobility and meet evolving skill needs. Active labour market policies (ALMPs) are a key component of the adjustment process (see Box 6).

Box 6 Active Labour Market Policies

Targeted nation-wide labour market programmes

Adopted in 1962, the United States Trade Adjustment Assistance (TAA) legislation complements general unemployment assistance and ALMPs by providing temporary assistance to workers losing their jobs as a result of trade liberalisation. The economic rationale for this policy remains controversial, since it is not evident that trade-displaced workers should receive more adjustment assistance than other job losers encountering similar difficulties and, in any case, it has proven difficult to differentiate between the two groups of job losers. Nonetheless, the TAA programme has been a source of innovative practices related to the provision of earnings-replacement benefits (e.g. the wage insurance programme introduced in 2003) and training for displaced workers (e.g. voucher programmes operating through state community college systems).

On the other hand, TAA seems to respond well to political economy considerations, in particular by consolidating public support for trade liberalisation. TAA has been significant in the area of textiles which accounted for 35 per cent of all TAA certifications between 1995 and 2000. The Trade Act of 2002, which established the current system of Trade Promotion Authority (TPA) that facilitates US acceptance of trade liberalisation by restricting the power of Congress to alter trade agreements negotiated by the President, also contains substantial enhancements to existing TAA for workers displaced as a result of international trade agreements.

Targeted labour market programmes designed by companies

In 2001-2003, approximately 12,600 workers were affected by layoffs in Östergötland – a Swedish county with 415 000 inhabitants. One third of these workers had been employed by affiliates of large industrial groups that offered voluntary adjustment programmes that went beyond corporate obligations. The programmes were tailor-made by companies that laid off significant numbers of workers (350 on average) and offered support in addition to the assistance required by laws and collective agreements. The costs were borne by the companies and the programmes were offered during a limited period of time. The benefits derived covered all parties involved: first, individuals benefited from early action, longer terms of notice, retraining support and access to external job agents that search markets for unannounced jobs; second, companies benefited from improved public relations, reduced costs to manage downsizing, better relations with unions, and an improved reputation as responsible employers; third, the public sector benefited from reduced pressure on job centres and lower unemployment insurance payments, reduced numbers of workers on long-term sick leave, higher tax payments, and smoother channelling of idle labour to expanding industries.

Box 6 Active Labour Market Policies (continued)

Östergötland's experiences suggests that crucial components of adjustment programmes include support activities that can lead to new jobs, support for re-education, and co-ordinated policies for people on long-term sick leave. Training for job search and the application process has proved useful and job search initiatives on the "hidden" labour market have been successful. Support for workers who opt for education is particularly important since many workers that are laid-off have skill sets for which demand is decreasing.

External specialists are preferably hired to manage adjustment programmes in situations of large layoffs with short notice. Conversely, internal organisations are more useful in small scale layoffs with longer notice. To facilitate the working of the programme, the core group that establishes the programme should include people with considerable knowledge of both the private sector and different public actors.

The timing of the programme is critical. First, affected workers need time to adjust between the layoff announcement and the implementation of the adjustment programme. Second, programmes that are too short in duration tend to be perceived as quick fixes incapable of providing real support while programmes that are too long often produce lock-in effects so that individuals become complacent and start their job search activities late. The programme should also be located outside the work place. In addition, workers with high previous salaries are often unwilling to initially take up new lower paying jobs. This can be bridged with a time limited offer by the retrenching company to pay the difference in salary between the old and the prospective new job.

18. Examination in the trade and structural adjustment study of the various policies needed for successful adjustment led to a series of recommendations for good practice (see Annex 1). The interplay of these policy elements can be illustrated by experience in the fisheries sector (see Box 7).

Box 7 Policy Adjustment in the Fisheries sector

Denmark's experience with adjustment in the harvesting sector shows that subsidies for decommissioning have reduced fleet overcapacity to some extent. However, the public cost has been high and the underlying problem of pressure on fish stocks has not been solved. In the processing sector, the opening of trade in raw materials has eased pressure on domestic fish stocks and contributed to the adjustment process. Outsourcing has also eased pressure and improved efficiency, with primary processing being carried out in developing countries and secondary processing in developed countries.

For example Danish processors of cod have established plants in Poland, which rely on Danish raw materials, but also on raw material imported from Russia and domestic Polish landings. The frozen cod fillets are exported to the EU, the traditional market for Danish cod. In Norway, similarly, processors of cod outsourced to China, where the cod is typically thawed to just above zero degree Celsius, filleted and refrozen. Subsequently, the twice-frozen fillets are re-exported to the EU market.

A further lesson from Danish experience is that care is needed in implementing labour market policies, as Danish reforms to reduce unemployment inadvertently diminished the sector's labour supply. The reform of the unemployment benefit policy implemented in the late 1990s indirectly caused additional adjustment pressures in the fish processing sector. The aim of reform was to reduce unemployment, and it diminished the possibility for part-time employees to receive supplementary unemployment benefits. As a result, the reform decreased the incentive to work part-time and take on seasonal jobs, which is an important feature of the fish processing industry, in particular in filleting factories. Hence the sector's labour force, traditionally located in remote areas, declined.

Thailand's seafood industry has enjoyed rapid growth, making the country a world leader in the international market for processed food such as canned tuna and frozen shrimps, but there are a number of challenges on both the demand and supply sides. Non-tariff measures (mostly sanitary and phytosanitary - SPS) in developed country import markets are obliging the Thai government to develop quality control, tracing and certification systems. The government has already taken action to increase the competitiveness of the seafood sector by enhancing vocational skills and promoting R&D. Furthermore, it has improved natural resource management to promote sustainable fishing practices, e.g. by establishing conservation zones, reducing the number of fishing vessels, promoting community-based fisheries and introducing regulations on fish farming in mangrove areas.

Thai industrial groups have played an important role in the development of Thailand's seafood industry, often relying on joint-ventures with foreign companies to acquire expertise and penetrate foreign markets. Direct government intervention in production and sales has been limited and the case of the seafood industry suggests that the active involvement of industry associations in the national policy-making process can help design effective policy responses to adjustment challenges.

Subsidies and related government support are also a defining feature of the fishing industry. During the 1980s and into the 1990s, after coastal states extended their jurisdiction over living marine resources to the limit allowed by the United Nations Convention on the Law of the Sea (UNCLOS) (as much as 200 nautical miles from shore), many OECD countries provided large amounts of support for building and modernising fishing vessels. Today, most OECD countries have either reached the natural limit of fishing or impose catch quotas, and subsidies aimed directly at expanding capacity and efforts have declined. Indeed, many countries are now paying vessel owners to decommission their vessels or to give up their licences to fish. However, some subsidies continue to inhibit the natural contraction of the industry, either by discouraging vessel owners and crew from leaving the industry (e.g., through special income support), or by reducing the cost of operating a fishing vessel or having it tied up in port. Such policies have helped to maintain an inefficient level of excess capacity, which in turn has slowed the recovery of depleted fish stocks. Currently, subsidies to fishing are the subject of negotiations at the World Trade Organisation (WTO), which is seeking to "clarify and improve" subsidy disciplines in this area (see below).

19. Some of the key points emerging from experience in the fisheries sector are that:

- while international trade is a cause of adjustment pressures it can also be part of the solution –as the opening of trade in raw materials has eased pressure on domestic fish stocks.
- Opportunities arise for specialisation among countries on the basis of comparative advantage – with primary processing being carried out in developing countries and secondary processing in developed countries.
- Labour market flexibility is an important complement of freer trade but care is needed in implementing labour market policies, as indicated by Danish experience (see Box 6).
- Institutional reform, particularly in developing countries, is an important part of the adjustment process.
- The use of subsidies also needs to be handled with care as these can also be either a tool of adjustment or an impediment to adjustment.

Proceeding in Parallel: policy coherence

20. In what order should policies be adopted? In the course of our study on trade and structural adjustment we held an experts meeting. At that meeting, everyone was agreed that sequencing is important, but there was not agreement on what the sequence should be. Some argued that macroeconomic reform should come first in order to create an enabling environment. Others that trade liberalisation should take priority to ensure that resources do not migrate to protected sectors. Yet others proposed that investment liberalisation should come first in order to ensure a macroeconomic multiplier effect. Some argued, quite persuasively, that industrial relations reform is a necessary prerequisite to ensure labour market preparedness. And others, also with a certain force of logic, suggested that competition policy reform should receive early attention in order to avoid abuse of dominant position in post-deregulation markets.

21. We were led to conclude that there is no blueprint for sequencing and that to the greatest extent possible, countries should adopt a whole of government approach; that is, they should seek to apply the full range of policy measures in parallel so that those who lose by one policy may gain by another and so that the synergies between policies are fully exploited. Trade liberalisation, for example, will only be fully successful in an economy where macroeconomic settings and labour market flexibility facilitate the entry and exit of firms and allow labour and capital to move from declining to expanding areas of activity.

Helping Those Who Lose

22. And there will be declining areas of activity. This raises the difficult question, already touched on, of what sort of protection or compensation should be given to those who may lose from structural adjustment. The overriding policy advice from the trade and structural adjustment study is that wherever possible governments should rely on generally available safety nets. At the same time, the case studies in our report make it very clear that targeted assistance, whether to particular geographic areas, workers or sectors, may be the price that has to be paid to have reforms accepted.

23. When thinking of assistance or support there are a number of guidelines that can be applied. Any measures taken should be:

- Transparent and accountable
- Time-bound, with a clear exit strategy
- Decoupled from production
- Compatible with general safety net arrangements
- Cost effective

Not by Domestic Policy Alone: Multilateral Cooperation

24. The main responsibility for effective adjustment rests with national governments. But international cooperation can help. More than that, full realisation of the potential benefits of globalisation will only be realised if there is cooperative action at the global level.

25. A good example of multilateral co-operation to improve understanding and implementation of sound regulatory practice can be seen in the APEC-OECD Integrated Checklist on Regulatory Reform, which is currently being adopted by the two organisations. The goal has been to support structural reform at the national level by bringing together salient elements of good regulatory practice (1) drawing on different regional experiences, reflecting great divergence in the performance of different economies; and (2) focusing on three main policy areas (regulatory, competition and market openness policies), as they emerge in terms of the three governance themes of transparency, accountability and performance. The Integrated Checklist provides guidance and explicit criteria to help governments evaluate their regulatory processes while setting priorities among competing objectives and strengthening capacities.

26. Multilateral cooperation is needed to help ensure compliance with internationally agreed core labour standards. We find no evidence of a race to the bottom in labour standards. But that is not to say that we should not be making greater collective efforts through the ILO to ensure that these standards are respected, and are seen to be respected. An important underlying consideration here is that improved working conditions are found to contribute significantly to growth and development.

27. Multilateral action is also needed to help ensure that the gains from trade are maximised. Effective action in the area of fisheries subsidies, including consideration of the specific concerns of developing countries, can probably only be taken in the framework of the WTO (see Box 8).

Box 8 The Doha Work Programme: Fisheries

The WTO Ministerial Declaration agreed in Hong Kong in December 2005 provides that Ministers:

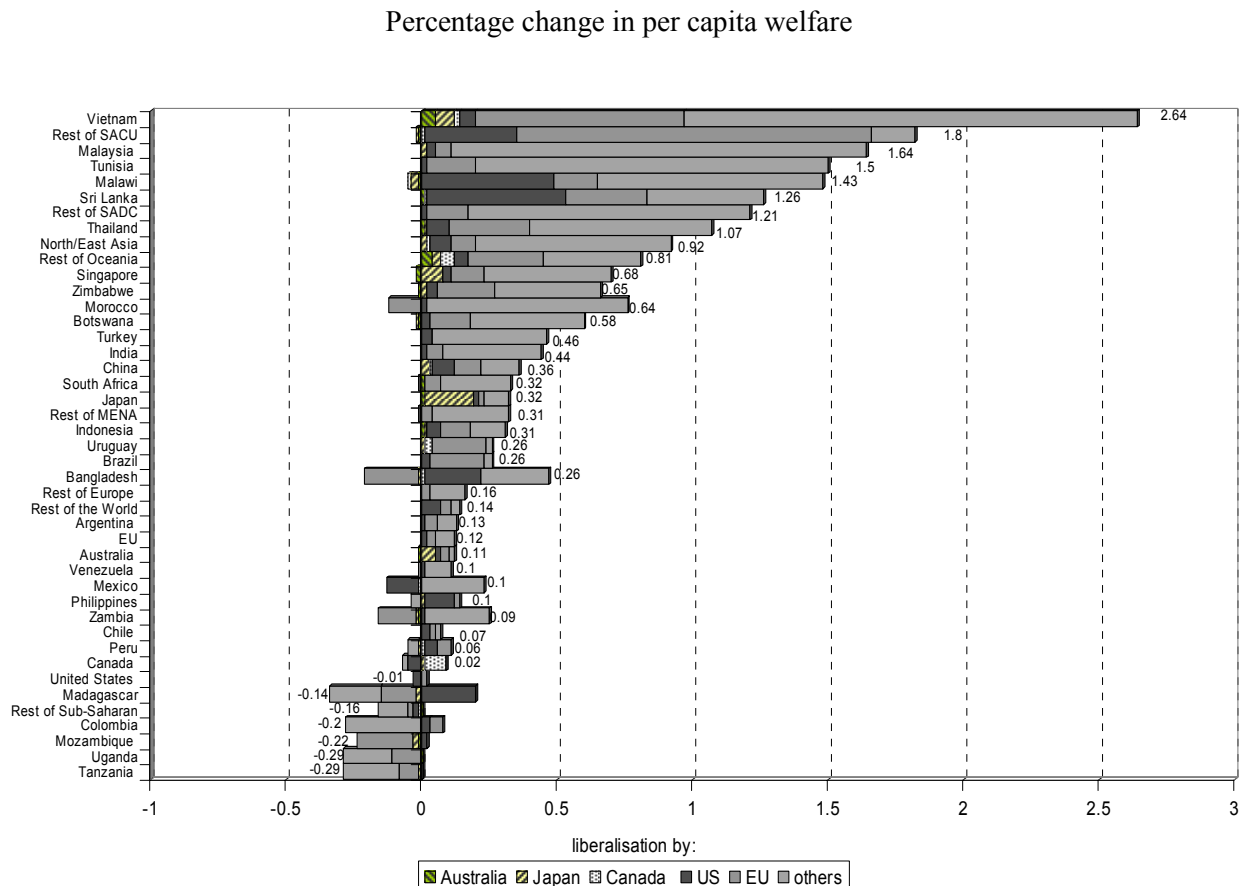
“recall our commitment at Doha to enhancing the mutual supportiveness of trade and environment, note that there is broad agreement that the Negotiating Group on Rules should strengthen disciplines on subsidies in the fisheries sector, including through the prohibition of certain forms of fisheries subsidies that contribute to overcapacity and over-fishing, and call on Participants promptly to undertake further detailed work to, inter alia, establish the nature and extent of those disciplines, including transparency and enforceability. Appropriate and effective special and differential treatment for developing and least-developed Members should be an integral part of the fisheries subsidies negotiations, taking into account the importance of this sector to development priorities, poverty reduction, and livelihood and food security concerns.”

At Davos in January 2006, Ministers called for proposals on fisheries subsidies, in the form of detailed legal drafting, to be ready by March and set July as the target date for the submission of a consolidated text by the chairmen of the negotiating group.

28. Given the central role played by the service sector in economic activity, all countries, stand to gain by making (and thus receiving) improved offers in the GATS negotiations within the Doha Development Agenda. And here we return to the myths of globalisation. One common misperception is that only a handful of developing countries will gain from trade liberalisation and that very many will be

worse off because of the erosion of tariff preferences. What we see is quite the contrary; for all but a very small number of countries, the gains from MFN liberalisation in the DDA will by far exceed any losses associated with preference erosion (See Figure 5).

Figure 5 Per capita welfare gains³ from a simultaneous 50% reduction in tariffs by all regions



29. But there will be that small number of countries, primarily in Africa, who lose and they will need help from the international community - in building supply-side capacities - to cope with their particular trade related challenge of structural adjustment.

30. Such help might encompass a strengthening of WTO rules, recognition that resource constraints in small and low income countries may require temporary exemptions from multilateral rules, and greater efforts, through aid-for-trade, to tie trade-related assistance to national development priorities. Donors can

³ Welfare gains from trade liberalisation can be broken down into two components: *i*) the change in efficiency with which countries utilise their resources, and *ii*) the change in its terms of trade.

Source: OECD, 2004b

indeed also have a role in the adjustment process. The EU for example has made development assistance available to finance sectoral restructuring in some ACP countries in light of the impact of preference erosion in a number of sectors. Where a particular sector is vulnerable, the IMF and WB highlight the importance of early identification of adjustment needs followed by an appropriate policy response. Similarly, a recent World Bank study on *Global Economic Prospects: Trade, Regionalism and Development: 2005* underscores the importance of multilateral liberalisation in assisting most developing countries to improve their market access and reduce the discrimination they face from the prevailing web of regional trade agreements. At the same time, the report acknowledges that for some, generally smaller, developing countries there are risks of net losses from preference erosion. This does not mean that preferences should be maintained. Rather, the reports points to evidence that appropriately designed development assistance measures can provide a less distorting and more cost-effective alternative to preferences (e.g. by supporting reforms that will help sustain growth).

31. But, however important the role of international cooperation, the key to successful adjustment still rests with the domestic policy environment. Where a preference-reliant developing country faces an erosion of benefits, the best policy responses will be similar to those recommended for other situations of trade liberalisation. That is, the response should seek to capitalise on new opportunities while facilitating adjustment. To accomplish this, and as stressed earlier, trade policy reform must be accompanied by complementary policies in such areas as promotion of macroeconomic stability and development of a social safety net. To the extent that the sector in question may be potentially competitive internationally, policy may seek to reinforce that competitiveness through support for an upgrading of infrastructure or human resources (e.g. through training). Where new opportunities arise, a focus on facilitating adjustment, redeployment of resources and promotion of entrepreneurship may be appropriate. In short, policies are needed which enable labour and capital to move to expanding areas of activity – the essence of a successful adjustment process.

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Annex 1
Trade and Structural Adjustment : Recommendations for Good Practice

On the basis of the cases examined in the OECD study on trade and structural adjustment and other experience gained in the OECD peer review process, government, in both developed and developing countries, are recommended to:

1. *Rely, wherever possible, on **generally available measures to address adjustment costs**, including through the social security and tax system, in order to help improve the benefits from openness while reducing adjustment strains.*
2. *Ensure that targeted adjustment measures, should these be considered necessary for reasons of economic efficiency or political economy, are:*
 - 2.1 *time-bound, with a clear exit strategy*
 - 2.2 *decoupled from production*
 - 2.3 *aimed at re-employing displaced workers*
 - 2.4 *compatible with general safety net arrangements*
 - 2.5 *cost effective*
 - 2.6 *transparent and accountable*
3. *Foster an adjustment-enabling environment, through the promotion of **macroeconomic stability and growth**, which supports the effective functioning of labour markets and the economy in general, and which, particularly in the case of developing countries, complements the process of trade liberalisation by:*
 - 3.1. *removing anti-export bias and maintaining appropriate exchange rate policies*
 - 3.2. *encouraging tax reforms to offset declines in government revenue resulting from tariff reductions.*
4. *Adopt sound **labour market policies** which facilitate the reallocation of workers towards higher productivity employment and so help economies - and their citizens - reap the gains from trade, and which encompass:*
 - 4.1 *income-replacement benefits which provide adequate income security for displaced workers while fostering their reintegration into employment. Thus, welfare benefits should support work incentives and not be used as a way to withdraw displaced workers from the labour force (as has often been the case with early retirement and disability schemes);*
 - 4.2 *active labour market programmes – including job-search assistance, counselling, training, moving allowances and proactive measures in anticipation of mass layoff – which entail:*

- 4.2.1 *active bipartite cooperation between management and workers' representatives and wider tripartite cooperation with the government in accordance with national practice*
- 4.2.2 *realistic assessment of workers' labour market opportunities and adjustment assistance needs*
- 4.2.3 *use of external specialists in the case of large-scale layoffs*
- 4.2.4 *programmes that are of sufficient duration to provide real support while also discouraging complacency*
- 4.2.5 *complementary support via income-replacement benefits*
- 4.3 *employment protection policies which find a balance between lessening adjustment costs while not restricting business dynamism*
- 4.4 *flexible wage setting systems, pension portability and fluid housing markets*
- 4.5 *education and training systems that foster the development of human capital and help ensure that labour skills meet evolving labour market needs.*
- 5. *Foster a sound **regulatory and competition environment** which permits transformation within firms as well as entry and exit across sectors by facilitating mergers and shifts in corporate culture, keeping regulatory barriers on enterprises to the necessary minimum and reducing the trade-distortive effects of domestic regulation through the reinforcement of:*
 - 5.1 *transparency*
 - 5.2 *non-discrimination*
 - 5.3 *avoidance of unnecessary trade restrictiveness*
 - 5.4 *international harmonisation of standards*
 - 5.5 *streamlined conformity assessment*
 - 5.6 *vigorous application of competition principles*
- 6. *Foster a strong **institutional and governance framework** that will favour structural reform, while also enhancing public understanding and acceptance of reform measures, via:*
 - 6.1 *effective ex-ante policy evaluation, including analysis of whether proposed structural reform is in the overall interests of the community*
 - 6.2 *independent review processes to ensure that benefits will outweigh costs while avoiding conflicts of interest*
 - 6.3 *mid-term and ex-post evaluation to help ensure that policies will be modified if necessary in light of actual experiences as well as any unanticipated difficulties*
 - 6.4 *effective social dialogue based on a well functioning consultative process between the government and civil society, including the private business sector*
 - 6.5 *sound public institutions for managing the services and incentives provided to investors, importers and exporters.*
- 7. *Adopt **liberal trade policies**, which support structural adjustment by contributing to economic growth, fostering competitiveness and innovation, improving access to essential imports and encouraging synergies between countries with different areas of comparative advantage, and which:*

- 7.1 *maximise the particular welfare and flow-on benefits which arise from the liberalisation of trade in services;*
- 7.2 *are implemented over a time period long enough to enable affected parties to adjust but short enough to avoid back-tracking;*
- 7.3 *rely sparingly on the use of safeguards and with a careful assessment of whether their potential benefits in providing breathing space for – and greater public acceptance of – structural adjustment justifies the cost they entail;*
- 7.4 *maximise opportunities for associated flows of foreign direct investment.*
8. *Undertake reforms across different policy areas in a complementary, **broad-based** way, in order to maximise cross-policy synergies and to reduce resistance to structural change, by helping ensure that those adversely affected by one reform may benefit from another.*
9. *Foster bilateral and regional initiatives, where regulatory cooperation can foster opportunities through trade or ease adjustment strains in particular sectors, and where trade-related adjustment and opening can be undertaken among bilateral or regional partners as a transition, or complement, to wider multilateral commitments.*
10. *Foster multilateral cooperation in the adjustment-related and interlinked areas of:*
 - 10.1 ***Trade and finance***, *by avoiding mutually destructive trade policy retaliation, helping lock in domestic reform, while addressing in particular adjustment-related concerns of developing countries, via:*
 - 10.1.1 *sustained commitment to the trade-liberalising and rules-strengthening objectives of the Doha Development Agenda*
 - 10.1.2 *the effective application of special and differential treatment for developing countries*
 - 10.1.3 *strengthened disciplines on the provision of officially supported export credits*
 - 10.1.4 *enhanced cooperation between the WTO, the World Bank and the IMF to ensure greater coherence in global economic policy making*
 - 10.2 ***Capacity building***, *via:*
 - 10.2.1 *effective coordination between the WTO, IMF, World Bank, ILO, bilateral donors and other multilateral agencies to help reinforce developing country institutional and supply-side capacities*
 - 10.2.2 *co-ordination of donor activities*
 - 10.3 ***Corporate responsibility and core labour standards***, *via:*
 - 10.3.1 *ongoing efforts to enhance the effectiveness, transparency and timeliness of the implementation of the OECD Guidelines for Multinational Enterprises*
 - 10.3.2 *ongoing application of the OECD guidelines relating to corporate social governance in the provision of official support for export credits*
 - 10.3.3 *ongoing application of core labour standards and decent work promotion, notably by the promotion of the ratification of the relevant conventions and through continued enforcement of the ILO Declaration on Fundamental Principles and Rights at Work*