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Protectionist Escalation under Way

by H. W. Dittmann, Geneva

Between 1959 and 1969, world trade grew by 137 p.c., from US \$ 115 bn to \$ 272 bn. This increase continued during 1970, and it is believed that the rate of trade growth was of the order of 12 p.c., of which about half was due to rising trade volumes and the other half to price increases. At the same time, world production has increased from 1959 to 1969 by two thirds, slower than world trade. In swiftly growing measure, national economies have become ever more interdependent. And there is not a single country which has not benefited from this expansion of world trade.

A New Protectionist Wave

How, in such circumstances, could it be possible that in many countries a new protectionist wave seems to be advancing? There can be no doubt that protectionist slogans are being revived, yet that their protagonists usually do not advocate all-embracing protectionism but generally praise liberal trade policies, with the sole exception of their own sector or branch of the economy. Reasons galore are being produced why exactly this or another branch of the economy should be exempted from the tenets of a liberal trade policy. Such reasoning has always been possible, it has never died out. World trade and international trade policies have fought their battles against them, and where nothing else was possible, protectionist exclaves or enclaves had to be tolerated. A certain dosage of protectionism had to be, and could be, swallowed without doing lasting harm. But now, when protectionist demands are growing apace in many sectors of the economy, and in a number of trading nations, among them the most important ones of all, all the signals stand at danger for world trade.

Fortunately, trading nations today may not only draw upon the experiences of the past which, if properly utilised, will show the direction in which protectionism can and must be fought. They also have at their disposal a machinery of international cooperation, specially designed for facilitating and promoting world trade on the basis of well-tested rules: there is GATT, the General Agreement on Tariffs and Trade, which is destined to play a prominent part in this context. Its treaty is being applied to trade by 93 governments, and more than 80 p.c. of all international trade are based on its rules. These rules consider the

interests of international trade, but not in a one-sided way or in isolation from its general economic and social aspects. Problems of economic growth, of full employment, of security of national supplies, of structural changes needed by certain industries, and last but not least the special difficulties of developing countries, have all been adequately taken care of. All this means that there is an international forum on hand for giving battle to neo-protectionism.

There is no secret about the dangers of the new protectionism for the community of internationally trading nations: if a given country resorts to protectionist measures, countermeasures by other countries will become inevitable sooner or later. In order to design suitable antidotes to protectionism, it is useful to analyse this movement.

The forces of protectionism existed at all times and everywhere but until a few years ago they had been pushed into the defensive, and their influence was limited. Its main strategy consisted in defending existing trade restrictions, not in engineering the creation of new ones. Since the successful completion of the Kennedy Round, things have changed. The voices of protectionism have become shriller and more aggressive, and they find a stronger response even with parts of the public which, until lately, had no sympathy for new trade restrictions or for marking time in doing away with the old ones.

Neo-Protectionism — a Form of Reaction

To be sure, neo-protectionism is, among other things, a form of reaction to successful international trade growth during the past twenty years. Growth of such trade has forced many industries to compete, which they had become unaccustomed to, or at least cut down to size profit margins which had become the favourites of sluggish managements. The fact that this benefits the consumer and the national economy at large is of little interest to the groups involved.

Weak and internationally uncompetitive companies and sectors of a national economy are generally among those whose clamour for external shielding is loudest. It would be a good thing if governments applied structural aid to reorganisation of weak and uncompetitive branches of their national economies, or to their being closed down, in order to transfer productive resources

thus set free to more productive applications. It is a pity that frequently considerable amounts are being sunk into preserving an existing manufacture, thus delaying or even preventing necessary changes.

Regional economic associations have made a big contribution to liberalising trade. Free regional trading, free trade zones, customs or economic unions are surely the harbingers of a world trade that grows freer from day to day. Nor must it be forgotten that the enlargement of regional European markets has been the pump primer for worldwide tariff cuts in the Dillon Round and, even more so, in the Kennedy Round. On the other hand, it is indispensable to prevent regional free trade from being carried on at the expense of trade policies in favour of a wide-open world, because such inward-looking regional policies sow the seeds of protectionism. If regional associations try to shut out world trade from their areas, they certainly provoke counter-measures. Such aspects of regionalism must not be ignored, on the contrary, they ought to be watched carefully.

Protection extended to farmers also deserves of strict watching, especially because it is so widespread. Nobody is likely to misjudge the special difficulties to which farmers are exposed, which are not only those of production technology but also problems of a social and human nature. Many governments are also keen on obtaining adequate food supplies from their own soil. All these special characteristics of farming require being taken care of, but they must never lead to the sheltering of farming completely from the impact of international competition. This would make of farming a kind of giant nature reserve. What will countries do whose climate and soil have forced them to become mainly exporters of farm produce, if consumer countries close the natural trade outlets to them by increasing their own crops and perhaps by gatecrashing into other markets by subsidising exports of farm produce? Nations that are mainly commodity producers are left no choice but to mount counter-measure. Therefore, in the context of justifiable government support for farming, trade relations must never be ignored, lest a counter-offensive of countries mainly exporting their own farm produce become inevitable. And this would affect industrial exports from industrialised countries adversely.

Possible Measures

What can be done to fight effectively against the forces of neo-protectionism, and how can its escalation be prevented? To deal with economic problems and difficulties generally, and also

specifically with those of world trade, will be easier in conditions of growing production, consumption and trading volumes than in those of a shrinking market. The first and foremost aim must therefore be to maintain economic activities worldwide on the highest possible level. Everybody will agree on this. In addition, it will be necessary further to consolidate and strengthen the existing system of world trade and its security. As in the past, GATT may also be able to play an important part in this in the future.

Ultimately, new steps for cutting down the remaining barriers in the way of trade should be taken, so that protectionism can be fought by further expansion of world trade. Admittedly, a new and world-embracing round of tariff cuts, comparable to the Kennedy Round, which was the last of its kind, is at present just "not on". The EEC and all the European states wishing to join it or associate with it are straining all their fibres to bring these difficult and complex intra-European negotiations to a successful conclusion, and they have now neither time nor inclination to deal with worldwide attempts at new tariff cuts. And the US Government has at present no authority for such talks, which means that the way in this direction is barred, for the time being.

Conclusions

It is, however, possible to come to two conclusions. Firstly, it ought to be possible to start talks already now about individual aspects of problems of a limited nature, especially about non-tariff obstacles to trade, in order to facilitate easier trading by all interested parties. Such limited negotiations would not interfere with the EEC talks about admitting new members, or with other intra-European negotiations, and no special enabling act would be needed to permit the US Government to take part. But such talks would set up a favourable climate for a new expansion of trade and thus, in themselves, create a counterweight to protectionist tendencies.

And secondly, any expansion of the EEC makes it indispensable to stage a big round of re-negotiations with GATT on the revised tariffs of the enlarged Community. This is mandatory under the rules of the General Agreement on Tariffs and Trade. Already when the EEC was first set up, such negotiations—the Dillon Round—became necessary, and the enlargement of EEC similarly makes it inevitable that GATT must stage new tariff negotiations. This will be another opportunity for emphasising the adherence to the liberal principles of world trade and for countering the forces of protection. Given only everybody's political determination, there will be ample means and ways for keeping protectionism at bay.