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Intereconomics

Suggested Citation: Long, Olivier (1977) : The protectionist threat to world trade relations, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 11/12, pp. 283-285, <https://doi.org/10.1007/BF02928816>

This Version is available at:

<https://hdl.handle.net/10419/139500>

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The Protectionist Threat to World Trade Relations

by Olivier Long, Geneva *

In view of the lasting recession and the constantly high numbers of unemployed in the western industrialised countries, endangered industries and some governments resorted to protectionism during the last months. Besides Olivier Long, Director General of GATT, Wilhelm Haferkamp, Vice-President of the EC Commission, and Otto Wolff von Amerongen, President of the Central Association of German Chambers of Industry and Commerce, in the following two contributions pronounce on the inherent risks to free trade and our prosperity.

Protectionism is in the air. For the first time in this generation, the dedication of the leading trading countries to liberal trading policies cannot be taken for granted. There has been no general reversion to protectionist action as yet, nor is there an immediate prospect of such a disaster taking place. But there is evidence, convincing to most observers, that the will to resist protectionist pressures has weakened in some countries, at the very moment when these pressures have become unusually insistent.

Over the past two years, and most particularly in recent months, a significantly higher number than usual of protectionist moves have been initiated or tolerated by governments. Others have been seriously threatened. Competitive pressures are driving domestic industries in many countries to voice new demands for relief through restrictions on imports, or for government help to their own exports. The real possibility that these demands will be met — and the evidence that in some instances they have been met — is encouraging protectionist influences everywhere, is threatening hopes of establishing more constructive relations between developed and developing countries, and is clouding the prospects for rapid recovery from the present recession.

During the worst period of the recession, protectionist pressures on governments were on the whole well resisted. OECD member governments pledged themselves not to introduce restrictions for balance-of-payments reasons, and have renewed that pledge regularly. The Tokyo Round of multilateral trade negotiations in GATT also helped to deter protectionist impulses. Now that the

recession has passed the worst, however, the industrially-advanced countries have more frequently ceded to pressures from domestic industry to introduce restrictions.

Intensified Restrictions

Of course, it is not only the industrialized countries which have in recent months intensified or introduced restrictions. Many developing countries have done so too, usually in response to balance-of-payments difficulties or as an element in the development plans. But the actions by industrialized countries are in my view much more significant both in their present impact on world trade and in their implications for future world trade relations.

For a number of reasons — for example, the fact that some restrictions are never officially notified to GATT or other multilateral organizations — it is difficult to establish with any precision the degree to which new import restrictions or export subsidies have been introduced in the past year or two. Such analysis as is possible is nevertheless highly instructive.

The product sectors most affected by protectionist action are clear. Apart from such special cases as restrictions on trade in beef introduced by the European Communities, Japan, and others, the main areas in which protectionist influences are most effective are comparatively few — but also very important. They are textiles and clothing; shoes; steel; transport equipment (particularly ships); and certain sectors of light engineering, including especially electrical and electronic goods and ball-bearings. Significantly, these are all areas of trade in which there have recently

* Director General, General Agreement on Tariffs and Trade.

been major shifts in comparative advantage towards producers who until the past decade or so were not significant exporters of the products concerned.

A wide range of measures have been introduced to regulate trade in these products. They include quotas, embargoes, higher tariffs, administrative harassment (such as apparent use of anti-dumping procedures without full investigation of the circumstances), and the very important category of "orderly marketing arrangements".

Causes and Effects

It is extremely difficult to quantify the trade flows affected by recent restrictions, particularly since these restrictions vary in their effects from outright interruption of trade to only partial disruption through uncertainty about whether trade will be possible in future. Our own best estimates in GATT, however, suggest that actions taken since 1974 have affected somewhere between 3 and 5% of world trade. In other words, trade of some \$ 30 to \$ 50 bn annually, previously unaffected by restrictions other than tariffs, has been subjected to restriction or disruption.

The worldwide recession itself, now in its fourth year, is of course a prime source of the present protectionist threat. Hopes kindled in 1976 of a swift ending to the worst economic setback since the Second World War have been seriously dimmed. Production in most of the industrial countries is stagnant; for many reasons confidence — and thus investment — is at a low ebb; and unemployment is very high, and still increasing. To these economic and social circumstances, highly likely to stimulate protectionism, are added the political circumstance that governments of many of the major industrialized countries are holding office by precarious majorities, and are therefore unusually sensitive to electoral pressures for protection. But other, and longer-term, factors seem also to be at work, not only stimulating protection but themselves contributing to the slowness of the world economy in recovering from the recession.

The astonishing growth in world trade since the end of the Second World War has resulted from many factors. Prominent among them, however, has been the acceptance by the trading nations of a generally agreed set of rules, in the shape of the General Agreement on Tariffs and Trade, which has made it possible both to trade with confidence on a day-to-day basis and to lay plans and invest for future trade. In essence, the GATT agreement has guaranteed that countries will be able to take advantage of their comparative trading advantages and that, as counterpart to this,

countries finding themselves at a comparative disadvantage in certain lines of trade will accept the need to shift gradually into other kinds of production.

It is this fundamental proposition that has been questioned, implicitly if not explicitly, by developments in trade policies in recent years.

For social and other reasons, few countries have ever been willing to accept full international competition in agricultural products. But for international trade also, adherence to the GATT rules has been progressively undermined. Since the early 1960s the rules have been set aside for trade in textiles. They have been weakened since the late 1960s by disputes and tensions created by payments imbalances, and recently by inflation and recession. In some instances they have been directly attacked by the imposition of selective protectionist measures.

All these moves involve a refusal to adjust to changing competitive conditions.

Costs of Protectionism

In conceding to protectionist pressures, governments may calculate that they buy social peace (and votes) at a tolerable cost in economic inefficiency and loss of growth. But the price they pay is much higher than it at first appears. Domestically, protection of one industry imposes economic costs on the others. (An unusually clear example is the general effect on industrial costs when an uncompetitive steel industry is granted protection.) Protection builds rigidities into the economy, creates vested interests in its retention, and encourages those industries which have not been favoured with it to seek similar assistance. It regularly goes to low-productivity, low-technology industries, at the expense of those which stimulate economic growth. And internationally, it risks stimulating protectionism elsewhere, governments and industries in other countries being influenced not only by example but often also by the immediate need to counter adverse effects on their own trade prospects.

It is unfortunate that the costs of protectionism, in the shape of reduced growth prospects, business uncertainty, and the loss of employment and investment opportunities created by dynamic adjustment are impossible to quantify and slow to emerge, whereas the advantages, usually in the form of "jobs saved" at an uncompetitive factory, are immediate and striking. This makes protectionism a particularly beguiling policy in time of recession.

It is thus paradoxically true that the present recession is a chief cause of protectionism, while

protectionist policies are themselves helping to prolong the economic setback.

In a journal devoted to economic questions, it is unnecessary to enumerate the grave economic risks involved should any more general reversion to protectionism take place. The memory of the 1930s has not yet, in any case, faded from the world's collective consciousness. The political risks, however, should also not be overlooked.

Political Risks

The present North/South dialogue between developed and developing countries, for instance, would be severely compromised. Many developing countries already doubt the ability of the present trading system, whose basic rules are the rules of GATT, to deliver on its promises of adjustment to shifts in comparative advantage and of a consequent better international division of labour. Their doubts of the fairness of this system would be confirmed by a serious weakening in observance of its rules.

The strains on political relations among the industrialized countries would be equally strong. There is no need to be apocalyptic about the possibilities, but history has shown that differences over trade matters have, time and again, proved sufficiently grave to lead to international conflicts of the most serious kind. Again, the 1930s come to mind.

Threat to the Tokyo Round

The present protectionist climate already poses risks for the outcome of the Tokyo Round of multilateral trade negotiations in GATT. After long years of technical preparation, these negotiations are now quickening in pace. An ambitious timetable for the next few months has been put forward for the negotiations by their largest participants — the European Communities and the United States — to bring them to the final and crucial bargaining stage. Governments must soon weigh the advantages to their export industries offered by the various concessions and codes under negotiation against the possible disadvantages for domestic import-competing industries. As always, the disadvantages will be easier to assess than the advantages.

A failure of the multilateral trade negotiations would imply more than the loss of the various moves being negotiated toward liberalization of present tariff and non-tariff restrictions on trade and the creation of new export opportunities. It would also increase the uncertainties facing all those engaged today in international trade, and would contribute to the lack of business confi-

dence which is today holding back investment and inhibiting economic recovery.

Successful conclusion of the multilateral trade negotiations could, on the other hand, have extremely beneficial effects, both directly and indirectly. Directly, the opening up of new trade opportunities would provide a much-needed stimulus to the world economy. The various codes of conduct now under negotiation on such matters as export subsidies, technical barriers to trade and safeguard action in the event of difficulties in particular sectors of industry promise to introduce greater realism and precision in areas where erosion of the multilateral rules has been evident in recent years. And on a wider view, the success of the negotiations should provide a real fillip to business confidence, and a strengthening of the liberal trading forces in the world.

The outcome of the multilateral trade negotiations could, in short, tip the present delicate balance in the world between the forces of protectionism and of liberal trade. Whichever way the balance tips, the consequences will be momentous for international relations in the coming years.

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