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**Article — Digitized Version**

## Protectionism — a danger to our prosperity

Intereconomics

*Suggested Citation:* Amerongen, Otto Wolff (1977) : Protectionism — a danger to our prosperity, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 11/12, pp. 289-292, <https://doi.org/10.1007/BF02928818>

This Version is available at:

<https://hdl.handle.net/10419/139502>

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Trade Negotiations, Strauss, and the Commission have done much to take the sting out of the discussion on the treatment of farm produce in the GATT negotiations. The Americans are aware that the Community cannot make its agricultural policy a matter for bargaining, and act accordingly. On this basis it has now been possible to hold substantive talks. Intensive discussions have also taken place on tariff value determination, subsidies and compensatory levies, standards, government purchases and protective mechanisms, all subjects of great though not cardinal importance.

Together with our American partners we have entered into a firm commitment to do everything in our power to complete the current talks by January 15, 1978. On the basis of these results it will be possible to start on the final phase of the negotiations which, it is hoped, will be concluded next spring. Considering the wide range and intrinsic difficulties of the complex issues involved, this is a very ambitious time-schedule. In the present situation however no effort must be considered too great for the reinvigoration of world trade and the world economy.

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## Protectionism – a Danger to Our Prosperity

by Otto Wolff von Amerongen, Köln \*

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Observers of the present deterioration of the climate of world trade may find it puzzling that quite substantial rates of real growth are still being recorded in international trade even today. What a dynamic force must have been developed by the business world – and the often vilified multinational corporations in particular – in the last score of years if such trade figures were still attainable despite many and mounting obstacles.

The development of the Third World – a task tackled with such great hopes – has suffered serious reverses however: no more than a dozen countries have been able to get away from a state of poverty and grow into world trade partners.

The constraints operating on Western trade are all the more serious. Signs of a distinct worsening of the climate of world trade began to show while the heads of government of the major industrialized countries of the West held summit meetings in Rome and London and at these and the following conference of OECD ministers averred their faith in world trade and in abstention from trade restrictions and additional export subsidies which are their correlative. More and more attention is being paid to requests for protection by the industries most closely involved in international competition although it is known that there is no causal connection between increasing trade exchanges on the one hand and decreasing growth rates of the GNP and negative repercussions on the labour market on the other.

The longer the governments of the Western democracies are exposed to the pressures of unemploy-

ment, the louder become the voices of those who, distrusting the ability of the economy to right itself and regulation by market forces, are clamouring for government intervention. Faced besides with continuing substantial differences in inflation rates and balance of payments problems which are only beginning to abate, some of our contemporaries are evidently of the opinion that, contrary to the public pronouncements of some states, protectionist measures against inconvenient imports are a better choice than world-embracing trade exchanges.

### Subtle Forms of Protectionism

It is worth noting that most governments are trying to make their protectionist measures as unobtrusive as possible. "Subtle" forms of protectionism are the fashion today as never before. They include appeals to buy goods made at home whenever possible as well as inordinate recourse to in principle acceptable administrative regulations on foreign trade. The most topical example of such practices is perhaps the attempt by one member country of the EC to exercise "control" beyond the protective measures of Art. 115 of the EEC Treaty by insisting on certificates of origin for textiles coming in from other EC countries. The gravity of such interference with free trade in the Common Market will be clear to all who are acquainted with the large variety of textile products traded now

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inside the EC on the one hand and the complicated definitions of origin on the other<sup>1</sup>.

Insofar as overt variants of protectionism are chosen, it seems to us that they mostly conform to the legalistic ceremonial of inter-state treaties — the so-called self-restraint agreements. Such practices are based on a correct assessment of the particular country's own interests: it needs the export trade and cannot jeopardize the outlets for its exports. Last but not least it was for fear of sanctions by the trade partners that the emergency brake of Art. XIX of the GATT trading rules has been used so sparingly. As the protective devices of Art. XIX have to be applied universally, even the strong trading countries are wary of using them. Hence the resort to a wide variety of protective expedients not covered by the GATT regulations. The latter are felt to be too stringent.

Only the strongest trading countries dare nowadays resort to patently and directly protectionist measures such as minimum prices for bulk steel or quantitative import restrictions on some textiles from developing countries.

#### **World Textile Agreement an Example**

If the stringent demands for equal treatment for all world trade partners in the so-called protective clause of GATT may indeed be thought to impose unnecessary hardships in difficult times, the erosive methods under bilateral agreements which have come into fashion are not satisfactory either. The world markets have stayed more or less open and can be easily surveyed, at least in the industrial sector, but they are becoming increasingly compartmentalized. Not only is access to them impeded by various covert trade obstacles but trade norms are negotiated in increasing numbers bilaterally so that they reflect the political weight of the trading partners rather than the quality of their location.

The world textile agreement is a good example: GATT acknowledged years ago already that there exist world-wide difficulties in the way of structural adjustments in the textile sector, especially in the industrialized countries. It was intended to solve them slowly, more particularly by the agreement on all fibres of 1973. The gradual growth of individual sensitive articles to be pursued under this agreement was however upset by the dynamism of the structural changes, with the result that attempts are now being made to hold back the market forces more effectively by new and refined technical procedures.

Safeguards of this nature may to some extent be necessary but will reinforce protectionist tendencies, especially if the greatest trade partner in the

world employs them against weak developing countries. This form of international dirigisme could only too easily become an example to be emulated in other industries.

The protracted negotiations and complicated arrangements involved in agreements of this sort do not only impose considerable additional administrative burdens on the business community but are a cause of great uncertainty when dispositions have to be made.

#### **Danger of Serious Permanent Damage**

The impediments to trade go by now in practice and intent so far as to threaten serious permanent damage. Not only do they have direct destructive effects on trade which affect the prosperity of the countries concerned and shift the burdens on to third countries and markets in which corresponding measures have not — as yet — been taken, but they engender a feeling of uncertainty generally and especially in the national economies with a relatively large export business such as the German economy. In a protectionist atmosphere a more pessimistic view will be taken not only of the prospects for exports but to a large extent of those of investment. We seem to have reached such a point. We are wasting the chance, which the world trade offers, of helping to create the right climate for growth and thus to overcome unemployment. An international crisis of confidence is being generated which will in the end destroy more jobs, and that permanently, than can be saved, even for a short while, by protective devices.

Moreover, increasing protectionism tends to weaken, from a certain point onwards, the wholesome pressure of competition on the old industrial structures, so that the need for adaptation to the new exigencies of the international market diminishes. The result is a dangerous petrification of obsolete production programmes and facilities. The longer the isolation from the international market continues, the more difficult it becomes to regain international competitiveness in the particular sector and the greater a burden it will become for the economy as a whole.

If the protectionism were to make further headway, the Federal Republic would certainly be among the most seriously affected countries. Integration with the world trade and involvement in the international division of labour has been its constant aim ever since the war. Its present prosperity is in large measure due to this orientation. Today how-

<sup>1</sup> This technical-administrative argument still ignores the fact that the so far customary rules on origin have already a protectionist effect insofar as they run counter to the distribution of production according to optimum location in the world, which is clearly the aim of the international division of labour and free trade.



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ever the Federal Republic is no longer in a position to develop its trade policy — like its monetary policy — autonomously. It is committed to the Common Trade Policy of the EC, which in the present context means in practice that it must accept the objectively different — or at least differently perceived — interests of the other member countries even when they operate against the Federal Republic.

The Federal Republic can and must exercise its political and economic influence to the extent of the voting procedures for the trade policy of the EC. It is regrettable that on many decisions it finds itself in a minority. Perhaps it must do still more to convince its partners of the impossibility of standing aloof from the task of readapting and restructuring the division of labour in the world economy and at the same time holding on to a leading position in world trade. We cannot hope to sell increasing amounts of more and more intricate manufacturing plants while progressively shutting off our markets in the face of the increasing efficiency of our partners. We are losing our credibility in the developing countries if we do that and at the same time encourage them in their dirigiste ideas of a New International Economic Order.

The new world trade structures must be evolved by the competition of all countries. Anybody who suggests that they should instead be negotiated at international gatherings or that they should be planned under state responsibility overlooks the fact that this would prove far more costly, for the individual states and for the world economy, than the burdens imposed by adapting the existing trade and production structures. There are enough examples of this to be found in the European agricultural policy for instance. Concern on this count has helped to ward off dirigiste schemes for the international commodity trade by some developing countries.

Economic interventionism and bureaucratization betoken falling growth rates in world trade, which means that they are a threat to our prosperity. A crisis of confidence in the continuity of world trade flows such as follows from the spreading erosion of the valid principles of world trade will make the solution of the employment and inflation problems now being felt throughout the world still more difficult. Let us hope that the Western governments will act in the GATT negotiations — and on other occasions as well — in accordance with their opportunities and responsibilities.

## **THE JOURNAL OF DEVELOPING AREAS**

US ISSN 0022-037X

The purpose of the JDA is to stimulate the descriptive, theoretical, and comparative study of regional development, past and present, with the object of promoting fuller understanding of man's relationship to the developmental process. Published quarterly in October, January, April, and July, each issue contains four to six articles, book reviews, and news and notes.

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