

Hochstrate, Hans Joachim; Zeppernick, Ralf

**Article — Digitized Version**

## Distortions in world trade: Recent developments

Intereconomics

*Suggested Citation:* Hochstrate, Hans Joachim; Zeppernick, Ralf (1988) : Distortions in world trade: Recent developments, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 23, Iss. 6, pp. 261-267,  
<https://doi.org/10.1007/BF02925123>

This Version is available at:

<https://hdl.handle.net/10419/140156>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Hans Joachim Hochstrate, Ralf Zeppernick\*

## Distortions in World Trade: Recent Developments

*The functioning of the world trading system is seriously distorted by a multitude of protectionist measures that impede a possible expansion in world trade and national product. Hans Joachim Hochstrate and Ralf Zeppernick analyse the latest developments against the background of the current Uruguay Round of GATT negotiations.*

The distortions in world trade are numerous and stem from a wide variety of causes. In the following article we shall describe the most significant recent developments and their causes and outline possible economic policies to allow world trade to evolve more naturally.

The continuing onward march of protectionism has proved to be one of the main threats to the development of a dynamic world economy. In this context it is particularly interesting to note that on balance the developing countries carried out more liberalisation measures in 1986, by contrast with events in the industrialised countries.<sup>1</sup>

The macro-economic costs of protection are probably extremely high, as several estimates have shown; in the case of the Federal Republic of Germany, the Cologne Institute for Economic Policy put them at DM 75 billion a year in 1985.<sup>2</sup> According to calculations by the Ifo-Institute, the German Institute for Economic Research in Berlin and the Kiel Institute of International Economics, the removal of protectionism could increase Germany's gross domestic product by 6%, or DM 100 billion, and employment by 9%, equivalent to 2 million jobs.<sup>3</sup> Another estimate of the cost of protectionism, purporting to show that complete liberalisation of OECD countries' trade could lead to a 10% increase in developing countries' exports and a 3% growth in their national product, aroused much interest at the Annual Meetings of the International Monetary Fund and the World Bank in Berlin.

Two opposing trends have been evident in recent years as far as protectionism is concerned. On the one hand, six multilateral trade agreements concluded under the auspices of GATT since the end of the second

world war have steadily reduced the incidence of customs tariffs. According to estimates by GATT, the average rate of duty levied on finished industrial products by the major industrial countries had fallen to about 6½% by the beginning of 1987.<sup>4</sup> This is a notable achievement, even though rates of duty remained high in some areas, such as trade in agricultural products and textiles, and in certain developing countries, owing partly to policies of import substitution. On the other hand, by contrast, the regulation of world trade by means of non-tariff trade barriers increased considerably in the seventies, especially after the second oil crisis. GATT bases its calculations on the assumption that around 40% of world trade is affected by non-tariff trade barriers.<sup>5</sup> The extent of the restraints on individual industries differs widely, as shown by an UNCTAD estimate based on imports: 67½% of the clothing industry was affected, 64% of the steel industry and around 50% of the agricultural sector.<sup>6</sup>

Although it is very difficult to quantify non-tariff trade barriers owing to a lack of transparency and problems of identification, figures such as these at least give an idea of the scale of the impediments to a free world trading

<sup>1</sup> IMF Survey, 27th July 1987.

<sup>2</sup> Forschungsinstitut für Wirtschaftspolitik an der Universität Köln: Die gesamtwirtschaftlichen Kosten der Protektion, Cologne 1985, research project commissioned by the Federal Minister for Economic Affairs.

<sup>3</sup> Ifo-Institut für Wirtschaftsforschung (Ifo), Munich; Deutsches Institut für Wirtschaftsforschung (DIW), Berlin; HWWA-Institut für Wirtschaftsforschung-Hamburg; Institut für Weltwirtschaft (IfW), Kiel; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Essen: Strukturberichte 1987 des Bundesministers für Wirtschaft.

<sup>4</sup> A. Herrmann: Handelspolitik in Zeiten dramatischer weltwirtschaftlicher Ungleichgewichte, in: ifo-schnelldienst, No. 24, 26th August 1987, pp. 6 and 9.

<sup>5</sup> H. Werner: Das GATT heute, speech to the fiftieth annual meeting of the Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute, 7th-8th May 1987, Bonn.

<sup>6</sup> United Nations Conference on Trade and Development: Protection and Structural Adjustment, Part I: Restrictions on Trade, January 1987.

\* Federal Ministry for Economic Affairs, Bonn, West Germany. — The authors wish to thank Mr. Rühmich for his valuable assistance in preparing the tables.

system. GATT already lists more than 800 variants of non-tariff trade barriers, based mainly on bureaucratic technical regulations.

Between March and September 1987 alone GATT recorded 135 "grey-area" measures. The forms that non-tariff restraints to trade can take are extremely varied; for example, they may be quantitative restrictions (e.g. import and export quotas or voluntary export restraint agreements), administrative and other trade restrictions (e.g. anti-dumping measures, consumer protection regulations or technical standards).<sup>7</sup> The examples in Table 1 illustrate strikingly the diversity of measures taken in 1986 alone and the large number of countries involved.

### **Discriminatory Bilateralism**

One of the characteristics of most of the non-tariff trade restrictions introduced recently is that they lead to discriminatory bilateralism, primarily taking the form of bilateral arrangements outside the multilateral surveillance mechanisms of GATT, as the following selected examples show:

- ☐ The new US Trade Act, containing unilateral US trade restrictions that conflict with GATT agreements; the growing opposition to foreign direct investment in the USA and the Act to curb textile imports, which has recently been passed by a large majority in the Senate, should be seen in the same light.
- ☐ The continuing differences of opinion over the semiconductor agreement between the USA and Japan and disputes about contracts in connection with Kansai Airport.
- ☐ The conflict between the EC and Korea, which shows partiality towards US patent holders in that country; as a result, the EC has temporarily suspended customs preferences for Korea.
- ☐ Continuing differences of opinion about the proposed EC guideline for meat treated with hormones and US complaints of prohibited and unfair support for soya-bean producers in the EC.
- ☐ Bilateral co-operation agreements, such as the one concluded recently between Italy and Argentina, the free trade agreement between the USA and Canada or the mooted free trade agreement between the USA and

Japan. It has to be realised that such agreements can harm other countries, even though it is normally only the benefits that are publicised. The statement by US Treasury Secretary Baker before the US House of Representatives on 9th January 1988 is symptomatic in this regard; he said that, "As developed countries with similar industrial structures and economic concerns, we will both benefit from bilateral trade liberalisation and our other trading partners around the world will benefit from our increased prosperity".<sup>8</sup>

Even agreements such as the free trade agreement between the EC and EFTA, which is considered to comply with GATT rules, or the co-operation agreement between the EC and the ACP countries raise the question of whether they might not be detrimental to other countries. GATT therefore provides for compensatory measures for third countries in such instances.

### **Agricultural Protectionism in the EC**

- ☐ Trade restraints as a result of agricultural policy: this will remain a permanent theme in EC relations with the USA, but increasingly also in those with developing countries.

Between 60 and 70 % of the EC budget is spent on agriculture. There has been little sign so far that the permanent reduction in overproduction has begun or that world agricultural markets are functioning better. On the contrary, the OECD stated in a note of 23rd April 1987 that, "Over-reliance on output-related subsidies and ever-higher public spending in OECD countries merely postpone the day when adjustments will have to be made: they would be all the more draconian and could not prevent many producers from becoming a marginal group in society. Exporting countries in the developing world would be obliged to join in the price and subsidy war, whereas importing countries would be forced to abandon the reorganisation of their agriculture needed to foster sound economic growth. The economic, social and political sequels to all this could cause the system to collapse and bring in a cycle of gluts and shortages that could not fail to damage the world economy."<sup>9</sup>

A reduction in EC agricultural regulation would have manifold economic consequences in Germany. An internal study by the International Monetary Fund estimates that over the short term, in other words within one or two years, consumer prices would fall by 5 %, total employment would increase by around 4¼ % and GNP would rise by 3 %. More important perhaps would be the fact that the EC, which today is the second largest

<sup>7</sup> J. B. D o n g e s : Nicht-tarifäre Handelshemmnisse, in: Handwörterbuch der Wirtschaftswissenschaften, Vol. 3, 1981.

<sup>8</sup> Treasury News, Department of the Treasury, Washington D.C., p. 1.

<sup>9</sup> OECD C/MJN(87)4. Ministerial Mandate on Agricultural Trade (Note by the Secretariat-General).

**Table 1**  
**Major Non-tariff Barriers to Trade, 1986<sup>1</sup>**

Date of Notification	Measure taken by	Affected Country	Product	Measure <sup>2</sup>	Comment
1. 1. 1986	Canada	Indonesia	Textiles	VER: P	Tightening of an existing agreement
1. 1. 1986	Canada	Brazil	Textiles	VER: P	Tightening of an existing agreement
1. 1. 1986	UK	Korea	Many	ATB: L	
1. 1. 1986	Portugal	EC	All	Quotas: L	In accordance with accession to the EC
1. 1. 1986	USA	South Africa	Various	AD: P	
3. 1. 1986	China	World	Steel/pesticides	ATB: P	Tightening of licensing system
7. 1. 1986	USA	Libya	All	Export embargo: P	Sanctions
24. 1. 1986	USA	Nepal	Textiles	VER: P	
21. 1. 1986	Philippines	World	Various	ATB: L	
2/86-12/86	Canada	Several	Various	AD: P	
13. 2. 1986	USA	Japan	Automobiles	VER: P	
15. 2. 1986	UK	USA	Animal fats, paper	Quota: P	
17. 2. 1986	USA	Canada	Various	AD: P	
25. 2. 1986	Indonesia	World	Machinery, software	ATB: L	
27. 2. 1986	Thailand	World	Textiles	Import ban: P	
28. 2. 1986	Senegal	World	All	Quotas: L	Heavy increase in most of the quotas
28. 2. 1986	Canada	Turkey	Pants	VER: P	
1. 3. 1986	UK	USA	Sporting equipment	Quota: L	
7. 3. 1986	Canada	Vietnam	T-Shirts	Quota: P	
21. 3. 1986	Canada	Mauritius	Textiles	VER: P	Tightening of an existing agreement
1. 4. 1986	Canada	Bangladesh	Textiles	VER: P	Tightening of an existing agreement
1. 4. 1986	Japan	All	Leather shoes	Quota: L	
11. 4. 1986	USA	China	Various	AD: P	
14. 4. 1986	Italy	World	All	ATB: L	Liberalisation of payment conditions
15. 4. 1986	France	World	All	ATB: L	Liberalisation of payment conditions
29. 4. 1986	USA	Canada	Various	AD: P	
5. 5. 1986	USA	Brazil, Korea, Taiwan	Various	AD: P	
15. 5. 1986	France	World	All	ATB: L	Further liberalisation of payment conditions
16. 5. 1986	Finland	World	All	ATB: L	Liberalisation of payment conditions
17. 5. 1986	Thailand	World	Garments	ATB: L	
27. 5. 1986	USA	Japan	Various	AD: P	
3. 6. 1986	USA	Canada	Various	AD: P	
5. 6. 1986	USA	Several	Helicopter	Export control: P	
10. 6. 1986	UK	Turkey	Various	ATB: P	Tightening of licensing system
20. 6. 1986	UK	Czechoslovakia	Steel	Quota: L	
23. 6. 1986	Canada	Korea	Textiles	Quota: P	
27. 6. 1986	Canada	USA	Cedar wood	Export ban: P	
27. 6. 1986	Malaysia	World	Cement, sugar, petroleum	ATB: L	
1. 7. 1986	Turkey	World	Various	Import ban: P	
2. 7. 1986	USA	Iran	Various	AD: P	
3. 7. 1986	Thailand	World	Diesel engines	Import ban: P	
14. 7. 1986	USA	Several	Various	ATB: L	Liberalisation of licensing system
22. 7. 1986	Canada	Vietnam	Textiles	VER: P	Tightening of an existing agreement
24. 7. 1986	Brazil	World	Computers, machinery	Import tax: L	
31. 7. 1986	USA	Japan	Semiconductors	VER: P	
8/86	Panama	World	All	ATB: L	Quota system is replaced by tariff system
5. 8. 1986	Canada	Japan	Automobiles	VER: P	Prolongation of an existing agreement
11. 8. 1986	USA	Spain	Various	Export restrictions: L	
13. 8. 1986	USA	China	Various	AD: P	
21. 8. 1986	Egypt	World	All	ATB: P	Tightening of government controls through licences
23. 8. 1986	Canada	Korea	Textiles	Quota: P	
1. 9. 1986	Canada	World	Steel products	ATB: P	Inclusion in import control list
7. 9. 1986	USA	EC	Steel products	Quota: L	
26. 9. 1986	EC	Eastern Europe	Steel products	ATB: P	
29. 9. 1986	Nigeria	World	All	ATB: L	
23. 10. 1986	USA	Singapore	Various	AD: P	
25. 10. 1986	Indonesia	World	All	ATB: L	
31. 10. 1986	Mexico	World	All	ATB: L	
5. 11. 1986	USA	Mexico, China, Taiwan	Various	AD: P	
8. 12. 1986	USA	Brazil, Taiwan	Various	AD: P	
9. 12. 1986	USA	Taiwan	Machine tools	VER: P	New agreement
11. 12. 1986	EC	Japan	Motor vehicles, TV sets	VER: P	
13. 12. 1986	USA	World	Sugar	Quota: P	Tightening of an existing quota
16. 12. 1986	EC	Taiwan	Colour tubes for TV	ATB: P	
20. 12. 1986	UK	USSR, Eastern Europe	Urea	Quota: P	

<sup>1</sup> Due to problems in identifying non-tariff barriers to trade the tables are not complete.

<sup>2</sup> AD: Antidumping measure; ATB: Administrative trade barrier; VER: Voluntary export restraint; L: Decrease in protection; P: Increase in protection.

Source: IMF: Annual Report on Exchange Arrangements and Exchange Restrictions 1987.

exporter of agricultural products in the world, would become a net importer and the developing countries net exporters.<sup>10</sup> It is important that greater attention be paid to these effects, particularly with a view to easing the debt problems of the Third World.

### Voluntary Export Restraints

The bilateral trade barriers that have increased most in number and scope in recent years are "voluntary" export restraints and "orderly marketing agreements" (see Table 2). The IMF reaches the same conclusion: "... of particular importance was the proliferation of voluntary export restraints".<sup>11</sup> They relate mainly to the sensitive areas of textiles, clothing, steel, agricultural trade, cars, electronic products and machine tools.

The restraints differ widely from product to product, but also from country to country. For example, Japanese car imports have been limited by France to 3 % of annual new registrations since 1977, by the USA to 2.3 million for the past six years and by Canada to a market share of 18 % for the years from 1982 to 1987 and one of 21 % for 1988.<sup>12</sup> A new development in this regard is the decision by the EC Commission to limit exports of Korean shoes to Italy by means of a voluntary restraint commitment under Article 15 of Regulation 288/82, an action it probably has no powers to take.

### Serious Impact

Voluntary restraint agreements have many serious effects on the prices of the goods involved, corporate profits and employment:

□ It is estimated that in 1984 around 10 % of world trade was impeded by voluntary restraint arrangements and

that 38 % of Japanese exports to the EC and 32 % of Japanese exports to the USA were covered by such agreements.<sup>13</sup>

□ A study carried out in 1987 into the price effects of a voluntary restraint agreement between the USA and Japan with regard to car shipments concludes that the index of new car prices would have been 4.5 % lower had it not been for the agreement and that the additional spending by consumers came to around \$31 billion between 1980 and 1984.<sup>14</sup>

□ According to OECD estimates, the rise in car prices in the USA would have been between 10 and 15 % if imports of Japanese cars had been restricted to 2.3 million and between 15 and 25 % if they had been held down to 2 million.<sup>15</sup>

□ A GATT calculation has shown that the voluntary export restraints in the textile, clothing and steel industries have not prevented a loss of jobs in the protecting countries. For example, employment in the steel industry fell by 42 % in the EC and by 54 % in the USA between 1973 and 1984. The OECD estimates that between 20,000 and 35,000 jobs in the US automobile industry were protected by such agreements in 1982, but this has to be set against redundancies totalling more than 200,000. The preservation of jobs in the US automobile industry therefore cost the consumer between \$93,000 and \$250,000 per job.<sup>16</sup>

□ Domestic producers protected by such agreements gain little advantage unless at the same time they are also given "general protection" against other competitors. The point is illustrated by the "explosion" in the import market share of colour television sets from Korea and Taiwan from 15 to 50 % in a single year when

**Table 2**  
**Important Known "Voluntary" Export Restraint Agreements (excluding the MFA)**  
(At the end of 1986)

Product	Number	Countries affected <sup>1</sup>	Measure taken by <sup>1</sup>
Steel	39	EC (4); OIC (12); DC (12); Eastern Europe (11)	USA (25); EC (14)
Agricultural products	17	DC (6); IC (6); Eastern Europe (5)	EC (16); Canada (1)
Cars and transport equipment	13	Japan (11); Korea (2)	EC (9); USA (1); OIC (3)
Textiles and clothing	11	Korea (2); ODC (9)	USA (4); EC (3); OIC (4)
Electronic products	7	Japan (6); Korea (1)	EC (6); USA (1)
Shoes	5	Korea (3); Japan (1); Taiwan (1)	EC (2); OIC (3)
Machine tools	3	Japan (3)	EC (2); USA (1)
Other	4	Korea (3); IC (1)	EC (3); Norway (1)
Total	99	Japan (24); Korea (14); ODC (21); OIC (20); Eastern Europe (16); Brazil (4)	EC (55) <sup>2</sup> ; USA (32); Canada, Japan, Norway (12)

<sup>1</sup> Abbreviations: DC: developing countries; EC: European Community; IC: industrialised countries; ODC: other developing countries; OIC: other industrialised countries. (The expression "other" in ODC and OIC refers to countries not expressly mentioned in the entry; e.g. in the line "Shoes" OIC means all industrialised countries outside the EC.) <sup>2</sup> Including 12 agreements to which individual EC member states are party.

Sources: GATT Secretariat and M. Kostecki: Export Restraint Arrangements, to be published shortly in World Economy.

**Table 3**  
**Anti-dumping Enquiries Initiated Between**  
**1983 and 1987**

Product	1983	1984	1985	1986	1987
Chemicals and similar products	12	23	—	14	13
Textiles, etc.	1	—	4	—	4
Wood and paper	1	8	4	1	2
Technical products	4	9	9	3	10
Iron and steel	4	1	8	2	5
Other metals	6	2	—	2	2
Other products	10	6	11	—	2
Total	38	49	36	22	38

the USA forced Japan to sign an orderly marketing agreement in 1977.<sup>17</sup>

□ On the other side of the coin, exporting countries affected by voluntary restraint agreements have developed counter-strategies to defend themselves; two-thirds of the increase in the prices of Japanese cars exported to the USA in 1984 after a voluntary restraint agreement had come into force was due to the fact that Japanese exporters made their products more exclusive and attractive, while remaining within the volume ceilings.<sup>18</sup>

□ It must also be realised in this connection that the higher profits resulting from price increases flow to companies in the exporting country and not to the state in the form of revenue, as would be the case with customs duty. Voluntary restraint agreements may be attractive to exporting countries for other reasons too; they may safeguard the exporter's access to the market of the importing country and enable the government of the exporting country to exercise control over its industry. It is therefore understandable that the exporter or exporters often willingly agree to a voluntary restraint agreement when threatened with protectionist measures by the importing country.

□ Voluntary restraint agreements are often circumvented by transshipping goods, sending them by

an indirect route or transferring production to unrestricted countries, so that the country of origin is no longer obvious.

One of the main factors encouraging the spread of voluntary restraint agreements is the fact that they are negotiated by the parties involved (the governments in the two countries and exporters) without attracting much public notice, whereas import quotas must be approved by Congress in the USA and pass via "highly visible administrative channels" in the EC.

### National Protection Measures

Another important development in EC foreign trade can be seen in the use of national protection measures within the Community (exemption from Community treatment under Article 115 of the EEC Treaty). According to a study by the German Industrial and Trade Association<sup>19</sup> a total of 155 decisions of this kind were issued in 1987, 103 concerning the textile sector and 52 relating to other products. This represents an increase of almost 10% over 1986, when the Commission put the number of decisions at 141.

The countries to "benefit" from these decisions were mainly France (63 decisions), Ireland (49) and Italy (28). Germany and Greece did not invoke Article 115 at all. The countries affected were primarily Taiwan (26 times), China (24), Japan (23), Hong Kong (22) and South Korea (17).

This does not accord with the Commission's efforts to restrict the use of Article 115 in the period up to 1992 in order to avoid abrupt changes occurring when the Common Market is superseded. By that date merchandise trade must either have been completely liberalised, the assumption on which the German Federal Government is working, or remaining national quantitative restrictions must be transferred to a Community basis, which is the view favoured by the Commission.

### Countertrade

One of the more recent developments in foreign trade is the steady rise in countertrade,<sup>20</sup> the volume of which is very difficult to estimate in view of its complexity and

<sup>10</sup> L. Lipschitz, J. Rosenblatt, T. Mayer, S. Gupta, K. Bartholdy, D. Demekos: *The Common Agriculture Policy and Consequences*, IMF-DM/88/1, pp. 3 ff.

<sup>11</sup> IMF: *Exchange Arrangements and Exchange Restrictions*, Annual Report 1987, p.10.

<sup>12</sup> OECD Observer: *The High Cost of Protection*, No. 150, February-March 1988, p. 5.

<sup>13</sup> M. Kostecki: *World Economy (IMF) of 1987: Export Restraint Arrangements*, quoted in: Clemens F. J. Boonekamp: *Voluntary Export Restraints*, in: *Finance & Development*, December 1987, p. 4.

<sup>14</sup> Charles Colyes, Steven Dunaway: *The Cost of Trade Restraint*, IMF Staff Paper, March 1987.

<sup>15</sup> OECD Observer: *The High Cost of Protection*, op. cit.

<sup>16</sup> Ibid.

<sup>17</sup> Clemens F. J. Boonekamp, op. cit., p. 5.

<sup>18</sup> Charles Colyes, Steven Dunaway, op. cit.

<sup>19</sup> Deutscher Industrie- und Handelstag: *Mitteilung an die Industrie- und Handelskammern sowie Außenhandelskammern*, Bonn, 21st January 1988.

<sup>20</sup> Cf. A. Herrmann, op. cit.

variety. Estimates range from 4.8% of world exports (OECD) to 8% (GATT) or even much higher figures.<sup>21</sup> The expansion in countertrade can be attributed to the fact that many trading partners, especially those from state-trading and developing countries, insist on compensation deals. The difficulties of financing imports in the conventional manner have increased for many developing countries, so that compensation trade is often the only short-term way of overcoming their foreign exchange problems, circumventing debt servicing obligations – which are often based on “official export earnings” – or getting round import quotas or bans. One recent example is Vietnam, which wants to swap tapioca for lorries.

However, compensation deals run counter to the principles of open, multilateral world trade settled on a monetary basis and promoting the international division of labour, and hence contravene the spirit of GATT. That is not to say that they may not be lucrative for individual firms. However, they raise considerable problems of competition in world trade and have a high cost; small and medium-sized enterprises are worst affected, since their experience is generally limited to their own products and markets and because dealing in bartered goods often entails high risks and involves them in substantial consultancy costs.

### Causes of Distortions

The recent distortions in world trade described above, which have led to a multitude of trade restrictions, can be attributed mainly to the following factors:

- Greatly increased economic interdependence and changes in the international division of labour have put individual firms and industries at a considerable geographic disadvantage in many countries.
- The threat to jobs as a result of the successful industrialisation of the NICs and other industrial countries has intensified the political pressure to introduce defensive measures and (seemingly) to protect domestic industry and slow down the pace of structural adjustment.
- The internationalisation of financial and goods markets has made national economies more vulnerable to economic developments abroad. Protectionist measures have been introduced in an attempt to neutralise this mutual dependence and achieve national advantages. In particular, the large trade imbalances between the major industrialised countries have greatly

accentuated the trade conflicts. Countries are trying to shift the resulting adjustment pressure onto other countries.

- A strong identity of interests between employers' associations and trade unions has favoured the adoption of further protectionist measures. For example, in 1973 Maggee<sup>22</sup> compared the public pronouncements of US trade unions and businessmen with regard to protectionism and found that in 19 out of 21 branches of economic activity both groupings expressed the same views on protectionism versus free trade. This explainable phenomenon is still largely valid today.

### Tasks for the GATT Round

However understandable the causes of the distortions in world trade and the reactions they induce, the harm that the many different measures have been demonstrated to cause should have shown plainly how important it is to raise the efficiency of the world trading system. Even the recent acceleration in the growth of world trade should not blind us to the considerable dangers threatening the smooth exchange of goods and services, particularly as the world economic outlook has deteriorated. The necessary measures to correct distortions in world trade should therefore be taken quickly. The following might be considered as a starting-point:

The German Federal Government and its partners in the Community must press urgently for continued swift negotiations under the new GATT Round and ensure that the Round is brought to a successful conclusion. This entails in particular halting the introduction of new protectionist measures (standstill) and reducing existing trade restrictions that are contrary to the GATT (rollback).

During the GATT round solutions must also be found to such difficult issues as agricultural trade, trade in services and the protection of intellectual property. It is inconceivable that the GATT Round can reach a successful conclusion without solving the problems of agricultural trade. Restricting the negotiations runs the risk that the unsolved problems in this area will have increasingly strong repercussions on trade in industrial products and services. The close link between agricultural and trade issues is of particular importance to Germany as a major exporting country. It is probably no longer possible to deal with agricultural questions more or less in isolation, as was the practice in the past.

<sup>21</sup> Bundesstelle für Außenhandelsinformation, in: Mitteilungen der Bundesstelle für Außenhandelsinformation, June 1987, No. 10.215.87.000.

<sup>22</sup> Quoted from B. S. Frey: Theorie demokratischer Wirtschaftspolitik, Munich 1981, pp. 26 ff.

In addition, GATT must be strengthened as an institution. Promising discussions on this issue have been held during the current Uruguay Round and ideas have been advanced with the aim of establishing more effective arbitration procedures (dilution of the usual GATT principle of consensus, the rolling-back of grey-area measures by introducing improved safeguard clauses (Article XIX)), greater transparency through regular policy examination and reporting obligations, closer co-operation with the IMF and the World Bank (improved overall view of trade, exchange rate and development problems), increased participation by responsible ministers and a strengthening of the executive functions of the GATT Secretariat.

### **Danger of Retaliation**

Other measures to strengthen multilateral trade should also be taken, especially a reduction in the subsidies that are paid throughout the world on an increasing scale in high-tech industries as well as in agriculture and in the "mature" industries particularly hard-hit by structural change. The problems they cause not only affect economic performance by distorting resource allocation but also create the no less serious danger of retaliation by other countries. As has already been emphasised, the link between more or less free trade in many industrial fields and protected, highly subsidised agriculture is likely to become even more pronounced in future. This also applies increasingly to certain industrial fields, such as the aircraft industry, ship-building and steel. For macro-economic and trade policy reasons it is important to draw greater attention to the dangerous trade repercussions of subsidies.

There is already a large degree of (verbal) international consensus that grey-area measures, voluntary restraint arrangements and orderly marketing agreements are highly dubious means of achieving effective structural adjustment and restoring competitiveness, but little action to eliminate them has yet been taken. The benefits to world trade deriving from successful rounds of tariff reductions must not be cancelled out by non-tariff trade barriers. What is needed is a round of reductions in non-tariff barriers similar to the extensive and successful rounds of tariff reductions; something along these lines has been mooted in the Uruguay Round.

The completion of the internal European market is particularly important from the point of view of free trade. Attempts to place national restrictions that are contrary to GATT – in the motor car sector, for example – on a Community footing must be resisted.

The dangers that compensation deals hold for a free world trading system should also be publicised more widely.

A free or at least freer world trading system is particularly important for the development process and the long-term solution of the debt problems of many developing countries. It seems increasingly doubtful whether the debt problem can ever be solved unless markets are permanently opened up to products from developing countries, in particular tropical and other agricultural products. At any event, official development assistance cannot compensate for lack of access to markets in agricultural and textile goods, for example.

### **Importance for Developing Countries**

In general, the questions of the international co-ordination of industrial countries' macro-economic policies, including trade policies, and the reduction in international disequilibria should be linked more closely with the problem of the developing countries' international indebtedness. The wider that markets are opened and international imbalances reduced as a result of economic policy co-ordination, the more successfully can the developing countries' problems also be solved.

The industrial countries must counter the pressure of imports from newly industrialising countries by means of product enhancement and innovation, accepting imports of labour-intensive mass-produced goods and seeking advantages by offering high-class goods on world markets.

The newly industrialising countries also have a suitable contribution to make towards liberalisation, which in many cases will also lead to greater competition and efficiency at home. The more they open up their markets – to each other's goods as well as to imports from poorer developing countries – the smaller will be the burden of adjustment to fall on advanced industrial countries and the sooner will the latter be able to open up their markets in sensitive goods, such as textiles.

The prospects for free world trade will also depend heavily on progress in reducing international disequilibria, especially among the USA, Japan, Europe and the newly industrialising countries. This can be achieved most quickly through the close co-ordination of economic policy with the aim of achieving steady, non-inflationary growth. At the same time, it would generate a more favourable climate for opening up the world trading system.