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Whither international trade policies? Worries about continuing protectionism

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Whither International Trade Policies?

Worries about Continuing Protectionism

by Juergen B. Donges

Weltwirtschaft Kiel

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Worries about Continuing Protectionism

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I. Introduction

The eighties should have seen further progress in the liberalization of international trade. During the Tokyo Round of trade policy negotiations (completed in 1979) an agreement on tariff reductions was reached and several "Codes of Conduct" were set up with the aim of stopping the proliferation of non-tariff restrictions and thereby providing for stability and predictability of trade rules. But by now it has become evident that the Tokyo Round marked a turning point in the post-war development towards liberalization. The failure of the GATT Ministerial Meeting in November 1982, mainly due to the clash between the United States and the European Community (and France) over a credible commitment to roll back import restrictions and to curb export subsidies, was a clear indication that the spirit of free trade was fading away. Subsequently, we have witnessed a strong revival of protectionism in the United States - the country which had led the trade liberalization process in the post-war period. Whether the recent meeting of trade ministers in Punta del Este (Uruguay) has laid the foundations of a new liberalization era remains to be seen.

The next section highlights recent developments in trade policies, in particular the continued drift into protectionism. It should become clear where countervailing efforts, through a new round of multilateral trade negotiations within GATT (to begin in 1987), are of greatest need. Subsequently, the consequences of current protectionism are recalled, both for the protecting countries themselves and for the world economy as a whole. This is followed by a brief discussion of the causes of observable clashes between international economists' prescriptions and the conduct of trade policies in practice. The last section addresses the prospects for restoring a functioning world trading order.

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II. Recent Trends

Trade policies in the eighties have followed divergent paths: Liberalization achievements of the past have been consolidated on the tariff front, whilst being threatened by retrenchment in the area of non-tariff barriers (NTBs).

1. Tariffs: Progress Made

It is encouraging that in the Tokyo Round the trend of six rounds conducted previously within GATT was resumed and m.f.n. import tariffs were cut once again - by one third for the nine major industrial markets combined, dropping the nationally weighted average rates on dutiable raw materials and manufactured goods to as low as 4.7 per cent in the EC, 2.8 per cent in Japan and 4.4 per cent in the United States (Table 1). Moreover, the "Swiss formula" applied in principle to the

Table 1 - Import Tariffs in Industrial Countries Before and After the Tokyo Round Cuts (Import Weighted m.f.n. Averages)

Importers	Raw materials (a)		Semi-manufactures		Finished manufactures		All goods (a), (b)	
	before	after (c)	before	after (c)	before	after (c)	before	after (c)
Nine major industrial country markets (d)	0.8	0.3	5.7	4.0	9.8	6.5	7.1	4.7
of which:								
EC	0.24	0.2	5.7	4.2	9.7	6.9	6.6	4.7
Japan	1.5	0.5	6.6	4.6	12.5	6.0	5.5	2.8
USA	0.9	0.2	4.5	3.0	8.0	5.7	6.4	4.4

(a) Petroleum and related products excluded. - (b) Agricultural products excluded. - (c) To become effective not later than 1 January 1987. - (d) The three importers shown in the table plus Austria, Canada, Finland, Norway, Sweden, and Switzerland.

Source: GATT [1980, Table 2].

tariff-cutting process (implying more than average reductions in initially high duties and less than average reductions in the low duty ranges) narrowed the dispersion of nominal tariffs, thereby harmonizing to some extent the structure of effective rates of tariff protection.

However important these achievements on the tariff front may be regarded, they should not obscure the fact that:

- nominal tariff rates continue to increase with the stage of processing (as Table 1 shows for broad product categories, even leaving aside several notable exceptions from the tariff-cutting formula);
- the depth of tariff cuts was lower than average for imports of industrial goods from developing countries (by about one quarter);
- the coverage of trade in agricultural products benefitting from agreed tariff reduction was limited (to roughly one third of world trade);
- the developing countries applied tariff reductions to a small part of their total imports only (less than 10 per cent), so that, with only a few exceptions (such as Hong Kong, Singapore, Kuwait), the average level and the dispersion of tariffs remain relatively high (particularly when compared to industrial countries), apart from the fact that, to a considerable extent, import tariffs continue to be non-binding.

2. *Non-tariff Barriers: A Rising Tide*

The tariff reductions (which began in 1980) have not been accompanied by a dismantling of non-tariff barriers in recent years. On the contrary, it appears that, with tariffs no longer being an effective tool for keeping imports at bay in industrial countries, pressures for non-tariff protection have intensified and governments have continued to move towards the management of trade. The temptation to proceed along the protectionist avenue must have been great for industrial-country governments in view of the severe economic recession throughout the OECD countries in the early eighties; sluggish economic growth and chronic high unemployment in Western Europe thereafter; the sharp real appreciation of the US dollar until early 1985; and the incessantly growing competitive strength of exporters from Japan and several newly industrializing countries (NICs). Evidently, periods

of harsh economic change are not conducive to trade liberalization; some analysts even wonder that there is not more protection.

The salient features of the protectionist drift are:

- concentration in non-price measures (especially "voluntary" export restraints, orderly marketing agreements, anti-dumping measures, variable import levies, administrative guidance, subsidies);
- selectivity according to the (alleged) needs of specific sectors (such as agriculture, textiles and clothing, footwear, leather products, ceramics, steel, shipbuilding, consumer electronics, watches, automobiles, machine tools, several high-technology industries);
- discrimination against the most competitive suppliers from abroad (generally Japan and the NICs) and against the centrally-planned economies of the Eastern bloc as well.

It is not easy to quantify accurately the extent and the restrictiveness of the existing non-tariff barriers as they frequently lack transparency and are difficult to identify; they may vary over a period of time and they are not necessarily applied everywhere in the same manner. Moreover, trade data are frequently not available at a sufficiently disaggregated level to capture a specific action. But several recent empirical studies provide a good illustration of what is at stake. For example, Balassa and Balassa [1984] found that in 1980 the share of manufactured imports subject to NTBs was 6.2 per cent in the United States, 10.8 per cent in the EC and 7.2 per cent in Japan and that these restrictions were extended to other products during 1981-1983 in the United States and the EC equivalent to 6.5 and 4.1 per cent of the 1980 dollar value of imports respectively.

Valuable confirmation of these trends comes from detailed calculations made by Nogués et al. [1986], which are summarized here in Table 2. NTBs for sixteen industrial countries combined affected 16.1 per cent of total manufactured imports in 1983; if NTBs on agricultural imports are included, the share rises to 18.6 per cent, while trade restrictions on fuels increase the overall share to 27.1 per cent. In trade in manufactures, the EC (in particular France) and the United States seem to be more protectionist than average, Japan less; moreover, the incidence of NTBs of the EC and the United States is more pronounced on manufactured imports from developing countries than on those from industrial countries, while the op-

Table 2 - Share of Imports of Industrial Countries Subject to Non-Tariff Barriers, 1983 (per cent) (a)

Importer	Exporter (b)	Fuels	Agricultural products	Manufactures		All goods	
				total	textiles	total	textiles
Sixteen major industrial country markets (c)	DCs	59.5	40.5	14.5	23.3	21.0	17.1
	LDCs	51.9	31.2	21.3	57.2	34.3	22.5
	World	43.0	36.1	16.1	44.8	27.1	18.6
of which:							
France	DCs	78.2	53.3	25.0	21.9	31.3	27.4
	LDCs	78.1	28.1	33.0	64.6	50.1	28.6
	World	91.0	37.8	27.4	48.4	57.1	28.1
United Kingdom	DCs	0	44.5	13.2	26.0	15.4	17.0
	LDCs	0	24.4	30.4	78.6	23.3	27.4
	World	0	34.9	14.8	59.6	14.3	17.5
West Germany	DCs	0	28.5	13.3	8.8	13.7	14.5
	LDCs	0	16.6	30.2	71.9	18.1	23.9
	World	0	22.3	18.5	57.0	12.4	18.3
EC-9	DCs	14.7	47.7	15.2	15.6	18.6	18.9
	LDCs	22.3	26.9	29.9	68.0	25.4	26.9
	World	24.4	36.4	18.7	52.0	22.3	21.1
Japan	DCs	52.8	36.8	9.7	11.0	21.4	16.9
	LDCs	6.7	53.3	4.4	13.0	12.1	17.5
	World	7.0	42.9	7.7	11.8	11.9	16.9
USA	DCs	99.8	23.5	16.5	31.1	26.0	16.6
	LDCs	99.9	25.1	18.6	64.0	54.0	18.9
	World	100.0	24.2	17.1	57.0	43.0	17.3

(a) Averages weighted by own imports. - (b) Developed (DCs) and developing countries (LDCs) as defined by the World Bank. - (c) The eleven markets shown in the table plus Australia, Austria, Finland, Norway and Switzerland.

Source: Nogués et al. [1986, Tables 1C and 4C].

posite holds true for Japan. Note should be taken of the fact that even West Germany, which is often regarded as a free-trade oriented country, applies NTBs to a considerable extent [Klepper et al., forthcoming].

The two sectors with the longest tradition of NTBs in industrial countries are, as is well known, agriculture and the textile and clothing industry. In neither of the two has protectionism abated in recent years, this despite the fact that governments have continued to underline the necessity of resisting further protectionist pressures. On the contrary, it seems that agricultural and textile policies now provide a fashionable model of trade management to be adopted in other sectors too, for instance in the iron and steel industry. What sector-specific trade management has come to mean in practice is highlighted below as regards agriculture, textiles and clothing, iron and steel, consumer electronics, automobiles, machine tools, and technology-intensive industries (1).

In *agriculture*, the most extensive and complex system of protection is run by the EC, which at the same time is a major exporter of many agricultural products (processed goods included). The Community's Common Agricultural Policy (CAP) now provides protection, by both variable import levies and export subsidies, to as many producers as never before, covering more than 90 per cent of the Community's farm output (as compared to 50 per cent of the EC-6 production in the early sixties). When the CAP was close to collapsing financially in the early eighties, there was a chance that an overdue fundamental reform would be initiated, which would also mean a reversal in the rising trend of trade interference [Gerken, 1986]. But this chance was allowed to pass.

The Council of Agricultural Ministers has preferred to muddle through the budget crisis. In 1984, a package of measures was set up which included, inter alia:

- the extension of production quotas (already applicable to sugar since 1968, with little success) to milk (albeit still outpacing consumption);
- the implementation of a co-responsibility levy on milk producers, by which they are to share the costs of disposing of surpluses (this policy has been applied to sugar since 1981 and to wheat since 1982);
- a slight reduction of intervention prices for cereals and a few other commodities;
- a dismantling of intra-Community trade taxes and subsidies (euphemistically called "monetary compensatory amounts", which were introduced in the past in

(1) For details see Anjaria et al. [1985], OECD [1985] and the literature cited therein. Many of the aspects involved have recently been discussed in various papers presented at the 1986 Kiel Conference on Free Trade in the World Economy (publication forthcoming).

order to allow Member States to delink, in the event of exchange-rate adjustments, the domestic agricultural prices from the agreed common price level).

There has been so far no willingness on the part of Member State governments to consider seriously the possibility of pursuing income targets in favour of farmers by direct income transfers instead of continuing with distorting price-support measures and purchasing guaranties, which would be a necessary condition for reducing significantly existing trade barriers and export subsidization. In line with this attitude is the determination, expressed by most agricultural policy-makers, to restrict further third-country imports which are close substitutes to the Community's farm products (especially cereal substitutes for use as animal feed such as manioc from Thailand), to continue "voluntary" export restraint agreements (VERs) in cases where over-production remains chronic (as for several categories of meat) or to tighten up on similar grounds previously established preferential market-access arrangements (as for butter).

Under these circumstances, it was not surprising that the United States recently took retaliatory measures. In view of deep-seated difficulties in American agriculture (declining farm incomes, rising indebtedness and several farm bankruptcies which also led to bank failures in rural areas), the CAP has been furnishing at least a pretext for the US government to render assistance:

- Subsidized export credits were extended to US farmers with the aim of defending market shares in third countries against suppliers from the EC (in addition to reducing surpluses, particularly with regard to dairy products).
- The government provided certain African countries "blended" credits in order to encourage them to purchase more agricultural products (mainly wheat) in the United States.
- The Soviet Union has recently been included among the countries which, under the current Export Enhancement Program, are entitled to purchase US wheat at prices below world market levels (this in spite of the official campaigns against this country invoking Western ideals of democracy, liberty and open markets).

Parallel to this protectionist spiral in US-EC agricultural trade relations, the United States maintained import quotas whenever considered necessary to sustain prevailing domestic price support programmes (milk products, for instance). And,

VERs were negotiated (or coerced) when imports were likely to surpass a previously established trigger level (as with Australia and New Zealand for meat).

In contrast to recent developments in the EC and the United States, agricultural NTB protection in Japan does not seem to have increased in the past few years, with the exception of a VER on butter agreed with New Zealand. The degree of protection which has been granted to Japanese agricultural producers for decades [Balassa, 1986] just remained at a high level, especially for wheat, barley, rice, meat, citrus fruit, milk, and dairy products (irrespectively of whether the degree of self-sufficiency is low or high). Quantitative restrictions on imports were eased for a few commodities, but the amounts involved were hardly significant (perhaps with the exception of high-quality beef imports from the United States). Moreover, foreign suppliers have continued to complain about hidden trade barriers which allegedly result from a complicated food distribution system within the country.

With regard to *textiles and clothing*, the developments in trade policy have been similar to those observed for agriculture. The Multifibre Arrangement (MFA) of 1973, which was originally announced as a temporary regulation to be in effect for a period of four years, but in fact was renewed three times (in 1977, 1981 and 1986), has provided the framework under which the industrial countries could restrain imports of textiles and clothing in an "orderly" fashion, especially those originating in developing countries, and in a number of Southern and Eastern European countries as well. By now, 80 per cent of North-South trade is being "managed" by bureaucracies (as compared to 60 per cent in 1974) and a great number of VERs have been signed for that purpose (the EC and the USA are in the vanguard, reaching 28 and 24 agreements, respectively, under MFA III, in addition to several bilateral agreements outside the MFA).

Whereas MFA I (1974-1977) still allowed LDC producers of textiles and clothing to increase their exports to industrial-country markets at an annual rate of 6 per cent in real terms, to switch between individual quotas and to carry actually unutilized quotas over into the next year, MFA II (1978-1981) reflected already the EC's and other European countries' demand for greater import restrictions (to be effected through the newly introduced "reasonable departures" clause). MFA III (1982-July 1986), again at the instigation of the EC, made NTBs in the textile and clothing sector intensify even more. Among other things, including the quite ambiguous language of the Arrangement, it should be noted that:

- a lower than the normal 6 per cent import growth norm was established for so-called "highly sensitive products" (such as cotton yarn and fabrics, man-made fibre fabrics, shirts, pullovers, jeans, trousers, blouses);
- import quota allocations were reduced and the flexibility provisions of previous agreements were cut back to a considerable extent for so-called "dominant suppliers" (mainly Hong Kong, South Korea and Macao);
- an anti-surge mechanism was introduced to prevent sudden increases in imports within agreed quotas (which could originate in countries which were not able, for lack of export potential, to utilize their quota fully in the preceding year);
- additional safeguard measures could be taken on the grounds that an industrial-country's so-called "minimum viable production" is threatened by import competition (of which especially the Scandinavian countries are afraid).

Thus it has turned out that the many worries economists had with the MFA for a long time have become a reality: "Orderly" trade means administratively-managed trade, under which discriminatory treatment of trading partners seems justifiable and international specialization according to comparative advantage can be denied as much as desired [Wolf, forthcoming]. Industrial-country textile and clothing producers are to get relief not only from actual import pressures but also from those which may grow in the future. Hence, the whole system aims not only at penalizing the most efficient suppliers from developing countries but also at discouraging other countries to emulate those frontrunners effectively. Quite in line with this objective, the third extension of the MFA, which became effective on 1 August 1986, has been tightened up even more, this time at the request of the United States (1): as here the regulatory mechanism was not so effective in restraining imports as expected, product coverage was broadened to cover vegetable fibres (such as ramie, which is a close substitute for cotton in some clothes); and any fabric or garment with an overgrown content of natural fibres (such as jute or sisal) can be subject to quotas, if imports are seen to be causing a market disruption. The EC insisted on a provision to strengthen international collaboration on

(1) However, it seems that the new accord was reached in due time to lessen congressional support for the Jenkins Bill (of November 1985), which would have deeply curtailed textile and clothing imports from several developing countries and Japan (and limited imports of shoes and copper as well). In fact, the US Congress failed (albeit narrowly) in its attempt to override the presidential veto of that heavily protectionist bill.

circumvention of the rules and on false customs declarations of the origin of products. Moreover, there was no commitment to terminate the MFA, as demanded by several LDCs.

As the whole protectionist package in textiles and clothing is quite elaborate and complex, it has probably created much uncertainty about market access conditions for both LDC exporters and industrial-country importers. This problem of uncertainty has been compounded in the case of the EC, because Member States requested time and again (temporary) derogation from the common external tariff, invoking Article 115 of the Treaty of Rome. As Table 3 shows, such requests were not confined to textile and clothing imports, but they have been rising in absolute and relative terms until 1983 and they still account for the lion's share of all exemptions granted (with France and Ireland as driving forces). Thus the common internal market for textiles has been eroded.

The continuing use of NTBs has undermined the EC's common internal market also in another area: *iron and steel*. Regulatory interventions by the EC Commission were initiated in 1977 in an attempt to reduce in an "orderly" manner the widespread overcapacity of the steel industry ("Davignon Plan"). Since then, regulations have developed further, based on mandatory production quotas to steel producers, ever-increasing subsidies (though strictly forbidden by Article 4 of the

Table 3 - Application by EC Member States of National Protective Measures Against Imports (Frequency of Exemptions from EC Obligations)

Year	Textiles & clothing	Other manufactures	Agricultural products	Total	Textiles and clothing as a per cent of total
1973	8	20	6	34	23.5
1977	37	22	2	61	60.7
1981	89	25	2	116	76.7
1983	123	31	5	159	77.4
1984	105	35	5	145	72.4
1985	79	44	5	128	61.7

Source: Spinanger, Zietz [1985, Table 3]; Bundesanstalt für Aussenhandelsinformation, Nachrichten für Aussenhandel, Köln, various issues.

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ECCS founding Treaty of Paris) and protective devices against third-country suppliers in the form of minimum import prices, anti-dumping procedures and VERs, covering about 80 per cent of EC steel imports.

By now, the Community's steel industry is probably as heavily controlled as agriculture and textiles combined. There is virtually no scope for an adjustment of steel production and exports along lines of intra-Community comparative advantage, except in cases of illegal circumvention of EC provisions (which reportedly has been practised by North Italian mini-mills, the "Bresciani", time and again); even worse, those steel-makers (say the Germans) who made efficiency-increasing adjustment efforts in previous years by reducing excess capacity and specializing in high-valued steel products are subjected to the regulatory system in the same manner as other firms (say the French) who have been delaying adjustment, innovation and modernization.

The "orderly" EC steel policy was to be phased out at the end of 1985. But, as the industry continued suffering from much overcapacity (in the order of 30 per cent of 1985 crude steel production, despite capacity reduction in recent years) and as many firms continued incurring huge operating losses, the regulatory system has been prolonged - until the end of 1987 for production quotas and import protection and until the end of 1990 for subsidies. The story repeats itself: once governments and bureaucracies step into the market in order to assist a declining industry, they assume a political responsibility for the fate of that industry in the future, so that assistance measures, even if they are announced as temporary, are bound to be sustained over a longer period of time; and, when the domestic market cannot absorb the production, there will be increasing efforts to look for outlets in third markets, in particular the United States in the case of steel.

Under these circumstances, the protection-retaliation spiral, which had already strained steel trade relations between the EC and the United States during the seventies and early eighties, recently took another turn. Imports had, in the past, already been perceived as a major cause of the long-term decline of the US steel industry. Now, in the light of an ever-increasing public subsidization of EC steel-makers (especially several major nationalized mills in Belgium, France, Italy, and the United Kingdom), import increases seem to reflect "unfair" competition. Protectionist demands were also triggered by the strong appreciation of the US dollar in 1983-1984, which helped lower-cost suppliers from Japan and several NICs, as well

as EC steel exporters, to capture growing shares of the US market. By the end of 1985, steel imports accounted for about 24 per cent of domestic apparent consumption, as compared to roughly 19 per cent in 1981 and 20 per cent in 1983.

Though the so-called "trigger-price" mechanism (of 1978) was abolished in 1982 (presumably because it had not provided the import relief which the US steel industry had wanted), the Reagan Administration has gradually given way to the protectionist pressures by several actions, such as anti-dumping procedures, VERs (in particular with the EC) and a recourse to safeguard measures under GATT Article XIX. As these actions have not been watertight, a new steel policy was shaped in 1984 with the aim of keeping the import share at 18.5 per cent (until 1989), which is below the levels reached since 1981. The US Congress has given the Administration the authority to implement appropriate trade restrictions (Trade and Tariff Act of 1984), apart from reserving to itself all rights to enact tougher trade bills if steel imports (when dumped or subsidized) continue to cause injury to the domestic steel industry [Jones, 1985]. The result of these developments is that the scope of managed steel trade has widened in recent years. Like the EC, the United States has also come to believe that the perennial problems of its steel industry can be tackled best by protection; that the US Administration has not intervened directly in the domestic market through cartelization, as the EC did, but that, rather, it has chosen to impose an upper limit to global imports (recently revised to 20.5 per cent) and then to distribute US market shares among (the more competitive) suppliers from abroad, does not make the policy any better.

There have been a great deal more NTB episodes since the Tokyo Round. They cannot be discussed here due to space limitations and the fact that the NTBs are frequently not officially recorded (sometimes they are even officially denied). But the point is that sector-specific protection is like a virus: once it comes up it easily spreads to other activities, even to those which have long been operating within the framework of liberal trade. Cases in point are *consumer electronics, automobiles* and *machine tools*, where Japan and several NICs have emerged as powerful low-cost suppliers putting established producers in the United States and the EC under growing competitive pressure both on their own home markets and on third markets (1). Again, the policy response mostly preferred by Americans and

(1) In a wider sense one could also mention that there is the suspicion that the United States is hardening its stance with regard to exports of so-called strategic goods (with dual uses) including the transfer of sensitive technology and

Europeans has been to urge the new competitors to exercise self-restraint in their exports. Thus, formal and informal VERs have turned out to be the most significant innovation in world trade policy: as they were not foreseen by the architects of the GATT and as no subsequent amendments took provisions on them, they are a convenient avenue for government and/or industries to "resolve" trade problems without having to comply with the cumbersome procedures of GATT Article XIX.

It is symptomatic of the protectionist drift, that not only declining activities or mature industries facing increased competitive pressure call for specific government intervention. The virus of selective protection is already threatening GATT rules in another way, namely in the context of government actions to sponsor *high-technology industries*, which currently have a great deal of public support in the United States and Western Europe, and for which a rapidly growing literature on discretionary trade policies for technology-intensive goods [surveyed by Grossman, Richardson, 1985] seems to provide convenient theoretical underpinnings. The presumption is that firms in the fields, e.g., of semiconductors, computers, telecommunications equipment, robots, aircraft, optical fibres, genetic engineering and the like possess certain special characteristics which make them quite different from any other industry; allegedly, they operate under conditions of imperfect competition, they invest large amounts of money in research and development (R&D) and their production is subject to increasing returns to scale, so that they have a high share of fixed costs in total costs. This means each of these high-technology sectors will have only a few firms. If a firm can make its determination to stay ahead in the race for getting costs down at the technology frontier credible to its foreign rivals, that firm will capture an ever-rising world market share and earn supernormal profits, thereby creating a potential for increasing national welfare. One way the firm can make its determination credible is, so the argument runs, to elicit government assistance (in the form of subsidies and/or protection). While it is assumed that lack of relevant information, risk aversion and/or externalities prevent firms from getting an edge over foreign competitors by themselves or, if they are latecomers, from capturing a significant part of the excess profits which a dominant foreign supplier supposedly earns, the government is believed to have all the detailed information and effective power needed to "create" a winner and to deter companies abroad from engaging too much in R&D.

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data to West European countries and several NICs (to avoid a re-export to the Eastern bloc). The lack of reliable information makes empirical testing of this presumption impossible.

Though industrial targeting has not been particularly successful so far [Nelson, 1984; Klodt, forthcoming], the temptation to continue along this track is unshaken. The current effort of 18 European states to launch multi-country co-operative projects in selected high-technology areas (under a newly created administrative umbrella known as EUREKA) is an example which speaks for itself. As has happened with NTBs favouring declining industries, there is no reason to expect that protective assistance granted to certain industries which are supposed to have a considerable growth potential could be easily phased out over a period of time. If the investment in these industries is a success, governments of other countries may be prone to emulate, thus providing vigorous support themselves. Attempts by the forerunners to keep their lead in the so-called growth industries may founder in retaliatory escalation or competitive subsidization worldwide. If, on the other hand, the industries chosen for encouragement fail, the government will be made liable for protecting the capital invested and the jobs created and, therefore, continue the assistance, which in fact would become the familiar maintenance assistance and distort trade patterns.

The preceding discussion has dealt with recent NTB initiatives of industrial countries, fundamentally the United States and the EC. The emphasis was deliberately placed on the the EC as an active player in order to correct the popular view that it is only the United States which is leading the protectionist drift. This impression is presumably biased because in the United States the legislator is much more involved in the shaping of trade policy than in Europe and therefore US trade policy actions receive great publicity if only for that reason. By contrast, the opaque style of decision-making in the EC, at both the Council of Ministers and the Commission level, provides plenty of opportunities to pursue protectionist policies of which the general public does not become aware.

By focussing on recent EC-United States trade policy problems, Japan appears to be a comparatively less active player; this also runs counter to widespread perceptions in western countries. But it seems that Japan, with some notable exceptions already mentioned (mainly agriculture and food processing), does indeed not pursue as much protection in the traditional forms of tariffs and NTBs as many believe (Tables 1 and 2). In particular, Japan has not taken initiatives with regard to the MFA and does not apply quotas on textiles and clothing imports from developing countries, whereas it has been facing such quotas in its exports to the United States. As the American and European import penetration in Japan, in ag-

gregate terms, is nonetheless quite low, there is the presumption that the problem is not mainly overt protection at the border, but, within the country, a complex interaction of government interventions, oligopolistic market structures, a complicated retail system and consumers' national preferences [Bergsten, Cline, 1985; Balassa, 1986]. There is no evidence, however, that these "intangibles" have been widened in recent years (1).

Finally, it should be emphasized, that the developing countries have extensively drawn on formal NTBs, but for different reasons. The external shocks which they suffered during the eighties (world economy's sluggishness, oil price increases, depressed primary commodity prices) in conjunction with accute foreign debt-servicing requirements, have created substantial balance-of-payments pressures which many countries tried to offset by restricting imports [Balassa, 1984]. The measures adopted (often only temporarily) were quite diverse and they extended from import-deposit requirements through import licensing to an outright ban on imports and exchange controls [Anjaria et al., 1985; Finger, Olechowski, forthcoming]. In the wake of recurring balance-of-payments crises, the chances for the pursuit of development strategies which were sensible and outward-oriented dwindled rapidly. Rather, old-fashioned policies of import substitution got a new stimulus (despite the widespread discouraging experience in the past) and a new damper has been put on the expectation that developing countries would make any significant progress in liberalizing trade among themselves (along the lines set up in a GATT Protocol of 1971).

III. Consequences of the Protectionist Drift

There is a great number of studies [surveyed in OECD, 1985] which invariably show that protectionist policies have adverse effects on the allocation of resources, the rate of economic growth and the evolution of sustainable employment opportunities. Selective protectionism has particularly negative repercussions since it delinks economic development from market conditions and progressively reduces

(1) At the same time, American and European firms have remarkably increased their presence in Japan, generally by setting up joint ventures with local companies. Reports talk about the "gaijin" (outsiders') invasion [Newsweek, March 3, 1986, pp. 38-41].

the structural adaptability of the economy to unpredictable internal or external opportunities and setbacks. This is also true of developing countries which (still or again) over-emphasize import substitution; in general, the protectionist policies serve to favour more or less systematically the comparatively less efficient and less essential industries. In public debate, there is the belief that protection would suit the needs of the protecting country and that the benefits outweigh the costs. The international repercussions too often escape attention. By contrast, it is safe to argue that the protecting country itself has to bear the costs of its own interventions in the first place and that, in a global perspective, the dangers of the new protectionism are grave.

1. *Costs to the Protecting Country*

The costs which protection poses on the protecting countries themselves have various dimensions, of which three are particularly noteworthy. Firstly, there is a direct increase of the costs to consumers as both imports and their local substitutes become more expensive than they would be under free(r) trade conditions. Particularly the VERs in such important sectors as steel, automobiles and textiles embody considerable price-raising effects (up to 10 per cent and more on average, depending on the overall market situation). In agriculture, the CAP might raise food prices even more (by around 25 per cent). Hence, protective devices are regressive in nature and hurt especially low-income groups in the protecting country.

Secondly, as the domestic prices of the protected goods are raised beyond the level they would reach in the case of free(r) entry of imports, and relative to the prices of other (less protected) goods, too much labour, capital and entrepreneurship is kept in uncompetitive industries. Factor costs are pushed in an upward direction under these circumstances, and the national currency becomes overvalued (other things equal). Other industries, especially the export sector (if it cannot easily pass the protection-induced higher costs on to foreign buyers), are penalized and this the more so the higher the elasticity of substitution, in production and consumption, between import-substitutes and non-tradeable home goods. The protection thereby acts as a tax on exports and, more generally, on growth industries. Hence, selective protection aiming at saving jobs in declining industries constitutes an obstacle to the creation of new jobs in growth industries (apart from

creating welfare costs per job saved which exceed the wages paid in this job). The net effect of an increase of protection may actually be to reduce the general level of employment. The outcome for the protecting country is still worse when other countries retaliate or when their supplies are diverted to third markets where they compete with the exports of the protecting country (1).

Thirdly, sectoral protectionism tends to generate x-inefficiencies at the firm level. Typically, cost-reducing efforts are relaxed in a restrictive trade policy environment. The management of a company does not feel compelled to improve the internal organization continuously as well as the marketing and distribution system and to carry out product and process innovations and to invest in the training of labour; one may content oneself with a "quiet life" while it pays to engage in (socially unproductive) rent-seeking activities. No firm could afford such a behaviour under competition conditions - and survive. Both the accumulation of x-inefficiencies and rent seeking generally lead to a situation in which the country progressively misses the opportunities to exploit economies of scale and fails to share, or catch up with, technological advances.

The efficieny loss of NTBs in the protecting country is significant. For example, with regard to VERs concluded by the United States and Japan in steel, automobiles and clothing the loss may amount to as much as 1 to 2 billion US dollars a year in each case, according to calculations by Kalantzopoulos [1986]. Furthermore, protection may have slowed down the rate of economic growth by approximately 2 per cent a year in the world economy as a whole, by 1.3 per cent for the group of industrial countries and by 2.3 per cent for the developing country group, as cross-section regression estimates, based on data for the sixties and seventies, show [Heitger, 1986] (2). These are probably conservative estimates, if only because they do not include the employment opportunities and value added foregone in activities against which protectionism discriminates.

To the extent that there is an awareness within the general public of these losses, there is frequently a tendency to regard them as a necessary price which has to (and can) be borne by society in order to sustain incomes and save jobs in declin-

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(1) For a recent analysis of the international transmission of a country's protectionism see Hamilton [forthcoming].
(2) See Finger and Olechowski [forthcoming] for further estimates corroborating this case.

ing industries, to promote growth in sunrise activities and, more generally, to allow domestic industries to adjust to international competition. The evidence does not support this notion, however. There are plenty of possibilities to circumvent, legally and illegally, protectionist measures in practice [Baldwin, 1982]. If anything, experience with industry-specific protection has shown that the so-called "breathing spaces" reduce the incentives to adjust in an efficient manner. If there was a benefit for particular groups, it was generally short-lived; sooner or later, labour was displaced, installed production capacities became economically obsolete and, in many cases, firms ended in bankruptcy, particularly in textiles and clothing, consumer electronics, steel and shipbuilding, in addition to agriculture (1). Thus, trade protection does not even attain the stated objectives, well-intentioned as they may be. It is an illusion to believe that governments, through import restrictions and export subsidies can create a new comparative advantage or regain an old lost one for their countries.

2. *International Repercussions*

While a country imposing trade restrictions suffers most from them, it also creates problems for other countries, in particular if it is a large trading unit such as the United States or the EC. One aspect relates to the international transmission of protectionist policies through trade deflection: the relatively more open countries become a convenient target for foreign exporters which face unsurmountable import barriers elsewhere; the inroads of foreign suppliers of automobiles, consumer electronics or textiles into the West German market may serve as an illustration. Moreover, sectoral protectionism leads to income transfers among industrial countries and to shifts of the adjustment burden, which are uncontrollable and may have nothing to do with the strength or weakness of particular economies; current developments in the policies on agriculture, textiles, steel or shipbuilding are cases in point.

All this is bound to lead to trade disputes among governments, as in fact has been happening increasingly between the United States and the EC in recent years. An

(1) See the sector studies related to major industrial countries in Hufbauer and Rosen [forthcoming].

examination of dispute settlements under GATT Articles XXII and XXIII by Hudec [forthcoming] has revealed that litigation has increased notably during the eighties and that the world's leading trading economies have been spending a lot of time in sueing and being sued. The United States is the most active initiator of lawsuits, the EC is the second largest; in turn, the EC is the GATT's first defendant, the United States is number two. The most prominent sources of conflict are the CAP of the EC (1) and the increasing subsidization of activities on both sides of the North Atlantic; that VERs have not led to litigation may be due to little interest on the part of an exporting country (which captures the scarcity value of the restriction), let alone the fact that these measures are not codified in GATT. Such trade disputes are disturbing because of the absorption of scarce resources both in the governments and administrations involved and in the private sectors which want to push politicians into litigation. Much worse, the disputes create an unnecessary and incalculable uncertainty for investors, exporters and importers as it is hard for them to predict the outcome of the settlement procedures and to assess the risk that governments resort to retaliation and counter-retaliation.

Adverse international repercussions can also be noted in regard to developing countries. Many of them typically lack the (economic and/or political) strength to retaliate effectively against protectionist devices of the major trading powers. It is true that most developing countries enjoy trade preferences in their favour; but it is equally true that the preferences have always been limited on both scope and coverage, that there is a myriad of safeguard clauses for the application of "emergency" protection and that the preferences have tended to be correlated inversely with the export potential of the beneficiaries [Langhammer, Sapir, 1986, forthcoming]. Especially sectoral protectionism, which aims at saving jobs in declining industries in the advanced countries, can prevent developing countries from making full use of their comparative advantage in the manufacture of labour-intensive products (textiles and the like) as well as in activities which embody standardized technology (such as in shipbuilding and steel-making). This also holds true for agriculture, where a comparative advantage (say in beef production or in corn-growing) ceases to be of any advantage when the EC, through the CAP's export

(1) The CAP has also been the main source of continuing inter-governmental quarrels within the EC which evidently is retarding progress in European integration.

subsidies, and the United States, through counter-subsidies, undercut the prices in the farm-dependent developing countries (1).

The danger for developing countries in the medium run then is that they promote exports of goods in which they have no comparative advantage, just because the access to import buyer markets seems to be easier, thereby incurring considerable domestic resource costs. Alternatively, they may sink straight into export pessimism and feel tempted to pursue inefficient import substitution. More generally, sectoral protectionism of industrial countries clashes with the official commitment of the US and EC governments to contribute, through trade expansion, to economic development in the Third World. And current efforts of debt-ridden countries to get out of the financial impasse are certainly undermined, since, for many of them, the industrialized world provides the markets of last resort (2).

IV. Why Protectionism Is Making Its Way

In view of the many adverse consequences of protectionism described above, one wonders why the evil continues. Had politicians and bureaucrats listened to international trade economists, they would have bet on further liberalization. But economic policies are formulated in a world of non-economists who are not trained to think in general equilibrium terms, to take a long time horizon and to weigh the benefits accruing to particular groups against the costs to be borne by society as a whole (and the rest of the world). Given these circumstances, various factors come immediately to mind which drive the system towards trade protection: Over-

(1) Major grain and meat exporters from the OECD, such as Australia, Canada and New Zealand, also claim that they are hurt by the EC-US competition in farm export subsidization.

(2) Awareness of these dangers is advisable although the NTBs often are not watertight, so that one could argue that the developing countries just have wrong perceptions about the true market-access conditions abroad and that industrial-country governments should provide the correct information in order to offset this externality. Usually only a few countries, mainly the Asian NICs, have found ways to penetrate protected markets (typically through up-grading their export products). Moreover, the (partly) unbinding nature of various NTBs could become a source of claims by the affected interest groups in the industrial countries for tightening them up, if import competition becomes stronger.

sight on the part of politicians and civil servants is one such factor; ideology is another; and both may interact with intensive lobbying on the political market.

The notion that the effects of protectionism are not (or only imperfectly) understood has two implications. One is that academic economists have not been successful in getting their message through: sometimes the models used are too sophisticated, sometimes the empirical evidence presented is quite ambiguous (and becomes a matter of controversy among researchers), thereby leading more to confusion than to enlightment of the general public; sometimes the allocational and growth effects are not fully captured, so that the estimated costs of protection appear to be small and hardly convincing for the non-believers. The other implication is that there is no steeply upward-sloped "learning curve" for governments or bureaucracies in the sense that each of those institutions become more knowledgeable over a period of time about the effects of trade policies and thus policy mistakes of the past are not repeated today. This can perhaps be explained by the simple fact that knowledge is incorporated in people, but since politicians come and go, and civil servants are often transferred from one position to another, the stock of knowledge at the level of political institutions does not necessarily increase significantly even if international trade economists have been understood by the individual practitioners.

The ideological factor has, at least, three aspects. Firstly, there are nationalistic and mercantilistic sentiments almost everywhere, according to which exports are a benefit whereas import competition constitutes a cost to the nation. These sentiments escalate when rapidly increasing imports are perceived in the importing country (say the United States) as "unfair" because the countries, in which these imports originate (for example Japan or certain NICs), allegedly or in fact do not provide equal opportunities for market access. Secondly, there is a notable distrust of the market mechanism, particularly in various Western European countries, for achieving stated economic and social objectives. Over a period of time this led to a continuous expansion of government interventions at the macro- and microeconomic level and to the creation of the Welfare State, so that today's trade protectionism may appear just as a concomitant of that development. Thirdly, there are high-priority political goals such as food security, pollution abatement, international economic strength or national defence which in most countries make the general public genuinely receptive to sectoral protectionism at home (e.g. in agriculture, steel-making, shipbuilding). To the extent that ideology determines trade

restrictions, received trade theory will be ignored, unless its outcome fits. The infant-industry argument, the optimum-tariff argument and, lately, the strategic-trade argument are instances in which governments of many countries are quite ready to use (or misuse) the prescriptions made by academic trade economists.

Perhaps most persuasive is the notion that the protectionist policies are pursued on account of pressure groups. As many theoretical and detailed empirical studies undertaken recently in the framework of the political economy of protection show, it pays for domestic producers and workers who are immediately affected by increased import competition to exert political influence through their voting power in order to obtain import relief. On the supply side, it may also pay for politicians (and bureaucrats) in democratic countries to give way to such pressures if doing so is regarded as essential for being re-elected (or for making a career). In this case there is a great incentive for them to take visibly short-term action (associated with some positive impact) and to ignore the long-term implications of protection, even if they understood them (knowing that the adverse repercussions, when they become evident some time in the future, will not be attributed by the general public to ill-conceived policies in the past) (1).

This political mechanism of protection-making becomes especially effective in periods of overall macroeconomic setbacks, as in the recent past. Because then it seems as if growing competitive imports add unduly to the internal difficulties, thereby eliciting even public sympathy for the application of restrictions or the granting of subsidies. It is true that import competition initially leads to a loss of the least viable jobs and industrial capacities, or slows down their expansion; but the counterpart of this pressure to adjust is the creation of new jobs and productive capacities in higher productivity lines which embody more skilled labour and more sophisticated machinery, including the manufacture of goods being exported to countries in which the competitive imports originate. However economically sound this argument may be, it has virtually no chance whatsoever of influencing the re-

(1) See Baldwin [1984a, b; 1985] for a review of the literature and a comprehensive case study of US trade policy-making respectively. This mechanism might also work in developing countries (the non-democratic ones included) in the sense, for instance, that it pays for capital owners in import-substituting industries, for the labour "aristocracy" and for bureaucrats issuing power through controls and regulations to invest into the continuity of an inward-oriented trade regime. But little is known in detail about the political economy of protection in these countries [Donges, Hiemenz, 1985].

sponse of policy-makers (and the aligning behaviour of civil servants) to the demands of vested interest groups. Evidently, neither the users of protected import goods suffering from the cost-increasing effect of a protectionist measure, nor the exporters who should fear retaliation, nor the consumers who have to bear higher prices, i.e. the majority of voters and taxpayers, have shown much resistance to the protectionist drift; and they certainly have been excluded from the shaping of sectoral trade policies.

V. Prospects for Trade Liberalization

In view of the interaction between oversight, ideology and the selective producer bias which has been built into the political decision-making, it is impossible to predict whether the trade-policy-balance can be turned towards liberalism in the near future. Perhaps the escalating protectionist sentiments in the US Congress, manifested in overwhelming approval by the House of Representatives (in May 1986) of an extraordinary tough trade bill, is the kind of "first-class shock" which jolts everybody into realizing that restoring access to each others' markets is one of the most important challenges which must be faced. Should the United States retreat into protectionism, a trade war with all its negative consequences for the world economy could become a real possibility. Hence, there was a strong case for the GATT trade ministers to agree, when they met in Punta del Este (Uruguay) in September, that a new - the eighth - round of multilateral trade negotiations be launched; the so-called "Uruguay Round" is expected to begin in 1987 and to last for at least four years.

Here we endorse the multilateral framework of trade-liberalizing efforts based on the principle of non-discrimination, because conceivable alternatives are either almost unfeasible or less efficient [Baldwin, forthcoming; Wolter, forthcoming]. For instance, there is nothing in the GATT which prevents a Member State from liberalizing unilaterally (to its own benefit in the medium term). But it is unlikely that this happens due mainly to domestic political reasons, unless there are strong pressures from outside (as in particular several developing countries have experienced, perhaps also Japan).

The feasibility may be greater if a bilateral or plurilateral approach is adopted, as suggested by Hufbauer and Schott [1985] on the grounds that the multilateral approach will not lead far. But, at the same time, there would be the risk that more discriminatory bilateralism and market fragmentation in world trade would arise than that which already exists in the form of customs unions and free trade areas (EC, EFTA, as well as some attempts among developing countries), preferential trade agreements (within the British Commonwealth; between the EC and non-member countries of the Mediterranean Basin as well as the ACP countries; between the United States and Israel and, for automobiles, Canada; the US Caribbean Basin Initiative of 1983 etc.) or the participation of industrial countries in the Generalized System of Preference for developing countries. In no case should one expect from a bilateral or plurilateral approach that it would pave the way to worldwide trade liberalization; if anything, experience points in the opposite direction (1).

Similarly, an aggressive approach requiring strict reciprocity country by country, as favoured by various circles in the US Congress, would also be dangerous and counter-productive. Rather than being directed at liberalization, this approach would give rise to retaliatory actions against every country "considered" to be protectionist itself. Counter-retaliatory measures from other countries, which have some economic or political power, would probably follow (including other matters besides trade). Thus the world economy would be threatened by a further phase of spiralling protectionism, which would be more difficult to control and would involve even greater political conflicts than hitherto.

The objective, therefore, must be to arrest and then reverse selective protectionism and to restore the principle of multilateral and non-discriminatory trade, for which the United States, the EC and Japan, being the pillars of the world economy, have the first responsibility. Several proposals have been made in the literature, lately by Leutwiler et al. [1985], Balassa and Michalopoulos [1985],

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(1) A recent example of the potential for escalating retaliatory and counter-retaliatory actions is the quarrel between the United States and the EC in the context of the Community's second enlargement: after the United States announced, in anticipation of losses of food sales to Portugal and Spain (in particular vegetable oils, soy and cereals), curbs on certain agricultural imports from the EC (such as beverages and cheese), the EC threatened with reprisals on US exports of wheat, rice and corn gluten feed to the Community. Up to now both sides have kept the trade conflict under control, but the problem must not be underestimated.

Baldwin [forthcoming] and Wolter [forthcoming], among others. Some common themes emerge, for instance:

- that import tariffs in industrial countries are eliminated;
- that there is a credible commitment to reduce and phase out the different variants of "managed trade" (most prominently the MFA), to remove existing NTBs (notable VERs and export subsidies) and to prohibit the imposition of new ones;
- that domestic programmes for income support in specific sectors (agriculture in particular) have to be pursued by means which do not involve, as a by-product, import restrictions and export subsidization (e.g. direct income payments instead of price support);
- that subsidies affecting trade flows must be scaled down, and countervailing measures (as well as anti-dumping duties for that matter) will be strictly limited to legitimate cases of injury to domestic sectors caused by subsidized imports;
- that if emergency safeguard measures are applied, this is done with greater scrutiny, that they take the form of tariff increases rather than of quantitative restrictions and that they are strictly temporary, degressive over a period of time, transparent and subject to international surveillance (by the GATT Secretariat or an inter-governmental body);
- that the negotiations cover all sectors which are involved in international trade (especially including services and trade-related foreign investment regulations).

It is still too premature to be precise about whether or not these issues will ultimately be settled in the new GATT round. The Ministerial Declaration of Punta del Este is displaying more agreement among the contracting parties on the wording used than in the substance at the moment. It is not even clear that every country understands in the same way what has been signed.

- For example, there is little chance of getting the MFA abolished (the United States, Canada and the Scandinavian countries even want to tighten it up, whereas other European countries would only be prepared to remove textiles from the arrangement); nor is the EC making a major move in reforming its CAP (thereby also rolling back the severely criticized export subsidies); nor are there any signs that the United States and the EC will reshape their national steel policies in the immediate future to allow free(r) trade in steel products; nor are governments taking decisive action to reduce subsidies in general (subsidies are increasing even in West Germany in spite of the purported commitment

of the Federal Government to reach budgetary consolidation).

- Furthermore, it remains a controversial matter whether trade in services should be included in the negotiations; the United States has been relentlessly arguing that it should, and it is now supported by the EC Commission (knowing that some member countries do not exactly feel enthusiastic about this idea) and by Japan, whereas a dissenting group of developing countries (led by Brazil and India), which fear that an extension of GATT's authority would distract attention from the pressing need to liberalize trade in goods further, are now accepting a discussion about services but only as a separate category from the rest of the topics to be negotiated.
- In turn, the developing countries have not yet shown much readiness to take a more active part in the forthcoming negotiations than they did in the past, and it is still an open question whether they can be persuaded to give up the prerogative of "special and differentiated treatment" (achieved in the Tokyo Round) and dismantle the considerable import protection granted to domestic mature industries (textiles and clothing included).
- Finally, the chance for getting an effective GATT Code on safeguards has not improved much since the Tokyo Round, during which an agreement was not reached. This is particularly disquieting because headways in trade liberalization depend to a large extent on the general acceptance of functioning safeguard mechanisms.

Hence the forthcoming multilateral trade negotiations will be extraordinarily complex and may require the application of an item-by-item approach. There is no guarantee at all that world trade will in fact be freed from the many selective and discriminatory interferences, and we may have to be content with a kind of standstill agreement, by which the governments just renounce the imposition of any further restrictive measure (which amounts to saying that the prevailing NTBs are legitimized).

Less scepticism could be warranted if the United States assumed the leadership in turning around trade policies. But the overall trading environment is not (yet) favourable for that nation to play that role. In particular, the prevailing huge US deficit on merchandise trade (in spite of the marked dollar depreciation since March 1985) in conjunction with the continuing high trade surpluses of Japan with the United States (and the EC as well) has caused many Americans to believe

(wrongly, I think) that the Japanese are the culprits behind the perennial economic difficulties in the US import-competing and export-oriented sectors, thus justifying protectionist measures against that country. Unfortunately, Europe is not in a good position either to take the lead in trade-liberalizing multilateral negotiations. One reason is the CAP, another the still unresolved severe adjustment problems in various industries and regions, and another the high rates of unemployment throughout the Community. Moreover, the EC Member State governments committed themselves at the The Hague Summit in February 1986, through an amendment of Article 8 of the Treaty of Rome, to build a true common internal market by the end of 1992; this could relegate efforts associated with multilateral trade policy issues to second place. Under such circumstances one may think of Japan playing the leadership role. After all, that country possesses a very competitive and dynamic industry and displays a notable technological strength. But the general thinking in Japan on international economic policy matters still seems to be rather introverted, so that perceived national trading interests will continue to have priority and, in case of clashes with worldwide interests, they may only be window-dressed or even adapted under strong pressures from outside.

In spite of this somewhat bleak scenario, there is still scope for hope that some liberalizing factors will be brought to bear. This includes the determination by domestic industries to innovate in products and processes, thereby increasing the international competitiveness of the economy (at given exchange rates). Helpful is also the strategy of multinational enterprises to diversify production geographically in the horizontal and the vertical direction and to operate with "footloose" subsidiaries, because, for this strategy to be successful, the openess of world markets is a necessary condition. Moreover, protectionist pressures in the industrial countries will ease if rapidly developing countries (mainly the NICs) pursue an efficient diversification and up-grading of their manufactured exports and trade in manufactures within the Third World is progressively liberalized (1). In addition,

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(1) Whether the most appropriate way to accomplish this is the so-called "Global System of Trade Preferences" among developing countries, which was announced at the Ministerial Meeting of the Group of 77 in Brasilia last May and which is to lead to negotiations on the exchange of trade concessions (with the first round to be concluded no later than September 1987), is doubtful. Such preferences, if effective, would constitute a new source of erosion of the principle of non-discrimination and would delay the integration of developing countries into the world trading order. A politization of trade relations, prompting discord both within the Third World and along "North-South" lines, is an additional danger.

the new information and communication technologies will make many prevailing barriers to trade in services redundant anyway. And, last but not least, budgetary constraints make continued subsidization, including that of agriculture, unsustainable in the medium run.

The greatest hope, however, is that it may become possible to mobilize consumers and taxpayers worldwide to press for trade liberalization. Ideally, they should be induced, or given the right, to complain about the violation of GATT rules by their own government (and not only by foreign governments), as Tumlir [1985] suggested. Providing a complete catalogue of all trade barriers in each country, disclosing the numerous flaws of protectionist arguments which still prevail at a conceptual level, and informing about the economic impact of trade barriers - all this would assist consumers in determining where their interests are being infringed upon. With private rights enforceable against one's own government, there would be a greater chance that trade policy decisions are taken more in line with mainstream international trade theory and less in line with the sectional interests of pressure groups.

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