International Trade

Contemporary Viewpoints

International

Trade

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Foreword

AMERICAN FIRMS can no longer ignore the fact that they operate in an international economy. Until the 1970s, the size of the American market seemed to provide infinite business opportunities for U.S. management and obscured the importance of the international markets. Today, however, firms must contend either with intense competitive pressures from imports or with the need to take advantage of scale economies through expanding export sales. Few businesses remain insulated from international competitive pressures.

In formulating a strategy to take advantage of global market opportunities, managers need to understand the kinds of interstate political agreements that make international trade possible. The following discussion of the international trading system will first discuss the role of the General Agreement on Tariffs and Trade (GATT) in facilitating the reduction of trade barriers on a multilateral basis. It will then consider the implications of the GATT agreements and future trade negotiations for U.S. trade policy, and will conclude with a discussion of some implications of U.S. trade policy for the international competitive strategies of U.S. firms.

The GATT was created in 1947 to provide a legal framework for the first post-war multilateral tariff negotiations. The GATT's charter was based on the commercial policy chapter of the International Trade Organization (ITO), a United Nations organization that was to provide comprehensive regulation of international trade and investment by member states. The GATT agreements were to become part of the ITO after it had been ratified. When the U.S. Congress failed to ratify the ITO, the GATT emerged as the primary organizational and legal framework within which international trade is regulated. Currently 88 states are GATT members.

The GATT's primary function is to provide a forum where member states engage in multilateral negotiations to lower tariffs. The tariff levels agreed to by participating states in negotiations over specific products are then made available to all GATT members through the most favored nation (MFN) clause, one of the basic foundations of the GATT Charter. From an economic perspective, multilateral negotiations are preferable to bilateral negotiations. A member state's ability to take advantage of tariff reductions that result from negotiations in which it did not participate creates incentives for that state to reduce its own tariffs by more than it would in straight bilateral "tit for tat" negotiations.

In the most recent GATT negotiations, the Tokyo Round (1973–79), the industrialized countries agreed to average reductions of tariffs on manufactured goods of 26.4 percent. With tariff rates significantly reduced, GATT members also began negotiations on non-tariff barriers (NTB's), in many cases substitutes for tariffs that restrict or distort trade. Generally, non-tariff barriers are those national government policies which impose regulations on foreign producers in order to protect domestic industries from foreign competition, e.g., government procurement practices which discriminate in favor of domestic producers. In addition to negotiations on the government procurement code to provide a framework in which foreign firms could bid on an equal basis with domestic firms for government contracts, the meetings included negotiations to reduce government subsidization of international trade. In the future, the United States would like the GATT to undertake negotiations to reduce non-tariff barriers in services and tackle the problem of government subsidies to the production and export of agricultural products, a crucial component of the European Community's Common Agricultural Policy.

Besides being a forum for states to engage in trade negotiations, the GATT is also important as a trade agreement in which states agree not to raise tariffs unilaterally unless industries can demonstrate that they have been "injured" by a substantial increase in imports. This agreement provides constraints against the imposition of unilateral trade restraints by the U.S. Congress. Although through its ability to tax, the U.S. Congress has the Constitutional authority to pass legislation to limit incoming U.S. trade, it would violate the GATT by imposing these restraints.

Because the economic incentives for interest groups to organize in support of trade protection are much stronger than those to organize in support of trade liberalization, the commitment of the United States government to adhere to the rules of the GATT is an important factor in shaping U.S. trade policy. Workers who believe their jobs to be threatened and managers who fear their return on investment will be reduced by the competitive pressure of imports are much more likely to lobby for trade restrictions than are consumers who face hidden price increases resulting from these restrictions. In the absence of interest group support of free trade, the GATT has provided the Congress some leverage with which to resist political pressures for trade protection.

The GATT does, however, include provisions that allow member states to impose import restraints under certain conditions. The most important of these provisions is the "escape clause" that allows a member state to impose temporary import restraints when an industry can demonstrate it is being "injured" by a rapid increase in imports. The Congress has specified that to receive relief, firms must demonstrate that an increase in imports constitutes the greatest problem facing the industry. The International Trade Commission (ITC) determines whether there exists a relationship between an increase in imports and the injury to the industry. Besides the escape clause, the GATT provides that if a firm or industry can demonstrate that it has been injured by imports which enter the U.S. at a price lower than the market price in the producing country (dumping), the U.S. government can impose a duty to ensure that the price for which the product is sold in the U.S. covers the production costs. In addition, if the ITC finds that U.S. firms are injured by imports produced by subsidized firms, the U.S. government can impose countervailing duties equal to the subsidy.

Congress often experiences political pressure to impose import restraints beyond that allowed by the GATT. To avoid legislated quotas that would directly violate the GATT, the U.S. has negotiated voluntary restraint agreements (VRA's) in which exporting countries "voluntarily" agree to restrict their exports. Most textile and apparel trade to the U.S. is restricted through a complex system of VRA's. These VRA's, however, are typically less restrictive of trade than the proposals for legislated quotas offered by industries whose products are no longer competitive with imports.

The United States' commitment to the GATT has made it difficult for firms to obtain the level of import restraints from the U.S. government they believe necessary to remain economically viable. The unwillingness of the U.S. government to impose the costs of trade protection on consumers indicates that a competitive strategy based on the expectation of the government's imposing import restraints is unlikely to be effective. To remain competitive in an international economic system, U.S. firms must now be responsive to the strategic moves of foreign competitors.

To maintain a political coalition that supports the GATT, the U.S. government must continue to negotiate increased access to foreign markets for U.S. products, providing new opportunities for American firms to expand their markets through export, joint ventures, or foreign direct investment. To take advantage of these opportunities, firms will have to obtain information from and about little known environments, interpret and act upon that information, and extract continuing feedback from foreign environments, all more costly than doing the same at home. (Delacroix, p. 147). Relatively small firms may benefit from experimenting on collaborative marketing efforts. The rationale for this kind of effort is found in a World Bank study that estimates "at least 328 million consumers outside of the U.S. enjoy or soon will enjoy incomes equal or superior to that of today's average American." (Delacroix, p. 151)

Thus, an open international trade system provides both opportunities and threats for U.S. firms. In spite of the intense political pressure for trade protection, the U.S. commitment to uphold the international trading system does not appear to be weakening. The recognition of the economic gains from trade remain a part of the contemporary trade policy despite the pressures on governments to protect non-competitive sectors of their economies. A thorough understanding of the global trading system that will enable firms to take advantage of these benefits is rapidly becoming a crucial component of corporate strategic management and planning.

— STEFANIE ANN LENWAY
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Note

1. Delacroix, Jacques, "Export Strategies for Small American Firms," *California Management Review,* 26 (Spring 1984): pp. 138–153.

Introduction

IN RESPONSE TO THE DEMAND for a convenient source of current information in the rapidly changing world of business and management practice, ABC-CLIO joined with Data Courier in publishing its Contemporary Viewpoints titles. Designed to provide business persons, students, and scholars with quick access to business thought of the 1980s, the informative summaries of significant articles from a wide range of journals and trade publications enable business persons, students, and scholars to gain a knowledge of topics of current interest. **International Trade: Contemporary Viewpoints** is the latest title in the Dynamic Organization series.

The source for the titles in the series is the leading business database, Data Courier's ABI/INFORM. ABI/INFORM was designed for business professionals who need timely information but are unable to scan the hundreds of news magazines, journals, and trade publications that are important to them. To build this database, abstractors, who are experts in law, employee benefits, business-government relations, data processing, finance, and other business fields, condense the international business literature into 200-word article summaries.

For this book, the more than 300,000 records in the database were searched for appropriate articles. From the resulting list the editors selected over 500 articles, published from 1980 to the present, especially relevant to the topic of International Trade and arranged them in chapters for easy browsing. A detailed subject index gives quick access to specific concepts, and an author index leads the reader to the variety of writers represented.

At the request of librarians and other information professionals, the editors have included a list of the database index terms (descriptors) following each article summary. These terms may be used as a guide for online searches for related articles or those appearing after the publication of this book.

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Chief	Chief Executive Magazine, Inc. 645 Fifth Avenue New York, NY 10022
Economist	Economist Intelligence Unit Ltd. 75 Rockefeller Plaza New York, NY 10019 OR 27 St. Jame's Place London SW1A 1NT England

Evolution	Association for Evolutionary Economics College of Business Administration Department of Economics University of Nebraska Lincoln, NE 68588
Institutional	Institutional Invester 488 Madison Avenue New York, NY 10022
International	International Economic Review Department of Economics McNeil Building CR University of Pennsylvania Philadelphia, PA 19104
Journal	Journal of World Trade Law 20 Cole Park Road Twickenham, Middlesex England
Manufacturers	Manufacturers & Agents National Association P.O. Box 16878 Irvine, CA 92713
MCB	MCB Publications, Ltd. 200 Keighley Road Bradford, W. Yorkshire BD9 4JG England
Michigan	Michigan Law Review Hutchins Hall Ann Arbor, MI 48109
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Sample Entry

Title

Countertrade: Forms, Motives, Pitfalls, and Negotiation Requisites (378)

Entry Number (This is the number referred to in the index)

Countertrade is being used increasingly for trade financing in developing nations. Essentially, countertrade involves bartering arrangements in which exporting nations agree to import goods from the importing nations in payment for the goods supplied. Countertrade may take several forms, including: 1. bilateral purchase agreements calling for the direct exchange of goods, 2. counterpurchase (swap) agreements in which goods are bought and sold in hard currency, with purchase by either party contingent on purchase by the other, or 3. buy-back agreements in which production means are provided by the exporter in return for the resultant products. For developing nations, countertrade allows acquisition of goods without straining cash flow while allowing industrialized nations to generate new export opportunities. Countertrade is a suboptimal alternative to cash transactions, but when effectively negotiated, it can be a valuable means of improving export and employment potential for industrialized nations. Charts. References.

200-word Article Summary

Author

—Khoury, Sarkis J.; *Jrnl of Business Research*, Jun 1984, 12(2): pp. 257-270. Avail. ABI 84-25639

Page Numbers of Article | **Where to Order Copy of Entire Article (see Introduction)** | **Accession No.** | **Journal Title** | **Date of Publication** | **Volume & Issue Number**

Barter transactions, International trade, Financing, Trade negotiation

Descriptors for Online Access

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Trade Policy

ISSUES, CONSTRAINTS

Address by President Reagan on International Trade Issues **(1)**

The potential for growth in international trade is enormous, with a $2 trillion market abroad and the opportunity to create new jobs for US citizens. The Reagan Administration has a 3-point plan to meet the trade challenge: 1. laying a firm foundation for non-inflationary growth at home, 2. enhancing the ability of US producers to compete in the international marketplace, and 3. taking the lead in assisting international trade and financial institutions to strengthen world growth and to bolster democracy. The US must avoid giving in to protectionist pressures, and open markets and free trade must be encouraged. The Export Trading Company Act is a primary step in attracting manufacturers, banks, and others into the export arena. Export controls on technology have been eased, export credit programs have been strengthened, and more attention is being given to better promotion of US products. A research and development policy has been undertaken to enhance the competitiveness of US industry with the realization that support of US producers will provide the means of pressing trading partners to more open and free markets. –Reagan, Ronald; *Business America,* Mar 21, 1983, 6(6): pp. 8-12. Avail. ABI 83-09353

International trade, Growth, Exports, Free trade (COM), Trade policy, Competition, Federal legislation, Programs, IMF

American Industry vs. Foreign Governments **(2)**

US companies can compete effectively with foreign industries that are self-sufficient, but not with foreign industries that enjoy government subsidies and protective policies. The US needs a national industrial policy and changes in US trade laws. Inability to develop an industrial policy in the past has been the one greatest cause of disabling US trade deficits in recent years. Foreign governments have been able to flood the US with below-cost products because of targeting, where a government promotes a selected industry by giving it preferential treatment through favorable loans, outright grants, tax breaks, and import protection. The targeted industry can develop rapidly. Once the domestic market is satiated, the subsidized industry will look for the chance to dump its excess production on foreign markets. High consumption and weak trade laws have made the US an ideal dumping ground. The industrial future of the US depends on development of an effective national industrial policy. –McBride, Lloyd; *Business & Society Review,* Fall 1983, (47): pp. 67-69. Avail. ABI 83-32232

Industrial, Policy, Trade policy, International trade, Free trade (COM)

Apertura Policies in the Cone of Latin America (3)

Apertura (opening up) is the Spanish name for the strikingly liberal international trade policies undertaken by Argentina, Chile, Peru and Uruguay in the 1970s. These liberal policies have been accompanied by orthodox measures of fiscal and monetary restraint to counter inflation. Still, important differences exist among the 4. Chile and Uruguay have been particularly successful, experiencing expansion of imports and dynamic growth with non-traditional exports. Peru, which has the only democratically elected government of the 4, has been able to rid itself of inefficient and over-protected industries. Relying too heavily on exchange rates, Argentina has failed to eliminate its budget deficits. An examination of the apertura experience suggests that trade liberalization can produce economic growth and increased international specialization of exports. However, apertura must be coupled with a macro-economic policy that does not overvalue the exchange rate. Otherwise, trade liberalization may counteract anti-inflation policy. Tables. References. –Congdon, T. G.; *World Economy (UK),* Sep 1982, 5(2): pp. 131-147. Avail. ABI 83-03801

International trade, Trade liberalization, Trade policy, Latin America, Argentina, Chile, Peru, Uruguay, Imports, Exports, Statistical data, GDP

Beyond Free Trade (4)

The US is now engaged in a divisive debate over international trade, with disciples of free trade on one side and protectionists on the other. The problem that manifests itself is that the classic principle of free trade no longer offers any politically compelling or practical alternative to protectionism. Free trade ideology has collapsed in favor of retaliatory protectionism, a situation that has been developing for over a decade. Policies inspired by new foreign competition operate either by raising barriers to entry or by altering cost structures of certain industries. A review of the history of the free-trade concept traces its progress, implications, and effects to the present. What is needed is a new trade policy that assumes and accommodates change in the world economy. It would distinguish among 3 distinct categories of trade friction, each linked to a different type of business: 1. low-skilled standardized businesses, 2. cyclical businesses, and 3. high-skilled, emerging businesses. A strategic trade policy would be able to facilitate adjustment within each category. Within the US, the forces of protectionism will prevail without clear US leadership in the opposite direction to discourage preservation. –Reich, Robert B.; *Foreign Affairs,* Spring 1983, 61(4): pp. 773-804. Avail. ABI 83-13316

Free trade (COM), International trade, Trade policy, Trade restrictions, Protectionism, Manycountries, Comparative advantage (COM)

Bilateral Trade, Dynamic Bargaining and Nonrenewable Resources (5)

In addition to the theory of comparative advantage and the theory of economies of scale with product differentiation, a third reason of trade, namely the differences in nonrenewable resource endowments of 2 trading parties, is formalized. The division of the gains in trade is also examined in a dynamic bargaining framework which requires consistent action by both bargaining parties. A special case is provided under which dynamic bargaining results in efficient resource utilization in bilateral trade. The characterization presented of a dynamic bargaining model of bilateral trade of nonrenewable resources satisfies the properties of: 1. bargaining consistency, and 2. intra- and intertemporal production efficiency. Bargaining consistency attempts to capture the dynamic aspects of multiperiod bargaining. If the bargaining outcome of one period affects the bargaining strength of future bargaining situations, this rippling effect on future payoffs must be taken into account in the current negotiation. Intra- and intertemporal production efficiency are not surprising, since transferable utility is implicitly assumed throughout the analysis. Equations. References. –Lee, Tom K.; *Jrnl of International Economics (Netherlands),* Feb 1983, 14(1)-2: pp. 169-178. Avail. ABI 83-12394

International trade, Bilateral, Trade, Dynamic, Bargaining, Non-, Renewable, Resources, Economic models

The Changing World Environment for International Trade (6)

America has been playing by one set of rules for conducting world trade while everyone else is playing by other rules. Predatory trade practices designed to permit one country to gain at the expense of others is economic warfare. The US has not assigned sufficient importance to the fact that international competition is competition between countries, not companies. The US must accept as fact that governments are and will be an integral part of international trade; it is the collective results in meeting foreign competition that will determine the country's economic well-being. The US does not have the national muscle to impose its solutions or wishes on the world, and old-fashioned protectionism will not help but will be grasped by desperate nations as a last resort if more constructive alternatives are not developed. The American government responds to grass-roots pressures and not to well-thought-out, logical, business-like positions. Any effective solutions will require government and industry working cooperatively and supportively to achieve mutually beneficial objectives. –Henske, John M.; *Vital Speeches,* Oct 15, 1982, 49(1): pp. 28-31. Avail. ABI 82-29184

International trade, Exports, Trade policy, Free trade (COM)

Conflicts and Dangers in World Trade Policy (7)

Since the end of 1979, the atmosphere of world trade relationships has become increasingly stormy and the stances adopted by major trading countries has become more aggressive rather than more cooperative. Although both independent observers and spokespersons of the countries themselves have recognized and defined the perils that these recent developments pose, it is by no means clear that there is any readiness, to recognize that it is the internal domestic policies of governments that have to be brought into the commercial policy debate as their direct "trade" policies. That a ministerial meeting of the General Agreement on Tariffs and Trade (GATT) was scheduled in November 1982 reflects the growing concern about the direction of trade policy, particularly the growth of protectionism. However, that meeting might prove irrelevant to the real causes of the frictions and tensions, with many pertinent topics being discussed, but the real issues of difficulty in the world avoided, in particular the conflicts between the US, Japan, and the European Community. –Golt, Sidney; *Banker (UK)*, Oct 1982, 132(680): pp. 29-39. Avail. ABI 83-00041

GATT, Trade policy, International trade, Economic policy, Trade agreements

Different Approaches and Problems in Dealing with Control of Market Power: A Comparison of German, European, and U.S. Policy Towards Market-Dominating Enterprises **(8)**

A comparison of the different approaches in dealing with market power created by internal growth or past uncontrolled external growth of firms is based on the landmark cases regulating or controlling market power by performance or structural remedies. This study necessitates referral to section 22 of the Act Against Restraints of Competition (ARC), article 86 of the Treaty of Rome (EEC Treaty), and section 2 of the Sherman Act. The methods used to correct and control market power are different in the 3 laws. All 3 grant conduct remedies in cases of hindering competitors. Section 22 of the ARC and article 86 of the EEC Treaty grant only a performance remedy in cases of abuse of a market-dominating position. US antitrust law contains no performance remedy. The German Monopolies Commission has proposed a conduct-related reform by granting a divestiture remedy in cases of abuse of a dominant position. Tables. References. –Schmidt, Ingo; *Antitrust Bulletin*, Summer 1983, 28(2): pp. 417-460. Avail. ABI 84-02617

EEC, Germany, International trade, Antitrust, Oligopoly, Monopolies, Market prices, Economic policy, Court decisions, Acquisitions & mergers, Antitrust laws, Sherman Antitrust Act 1890-US, Market shares, Trade barriers, Divestiture

Double or Nothing: Open Trade and Competitive Industry **(9)**

Trade disputes have become so severe that they are not readily resolved by existing institutions. Rather, the problems reflect basic long-term conflicts over national economic position and advantages and threaten the open trade system nurtured by the US since World War II. As long as the US enjoyed competitive advantages in a broad range of manufacturing sectors, it could sustain the current liberal trading system by absorbing imports. Now, however, the current valuation of the US dollar, along with rapid changes in monetary values, have improved substantially foreign competition. Internationally, the response must be to promote strategic market openings in developing states and equalization of competitive conditions in Third

World markets. The US should also restrain itself from weakening the General Agreement on Tariffs and Trade (GATT). Domestically, the US must revitalize a wide range of its manufacturing industries, and the current economic recovery must not be allowed to stall. Without proper coordination of these policy objectives, protectionism may replace the open trade system. References. –Zysman, John and Cohen, Stephen S.; *Foreign Affairs,* Summer 1983, 61(5): pp. 1113-1139. Avail. ABI 83-21265

International trade, Trade agreements, Trade relations, GATT, Trade policy

Dumping in International Markets and Welfare: A General Equilibrium Analysis **(10)**

Little is known about the impact of dumping on either importing or exporting countries. A general equilibrium analysis of traditional dumping from the perspective of an exporting country is developed using a 2-sector open economy with a monopoly in the export sector. The model country has monopoly power in the domestic market, is a competitor in the international market, and is able to discriminate between the 2 situations. Although income distributional and resource allocational phases are basically the same in the standard 2-sector model, where such dumping exists, significant distinctions occur in policy applications. A first-best policy would make a consumption subsidy to domestic consumers of export goods. A tariff or an export tax should be used only as a 2nd-best policy. Graphs. Equations. References. –Das, Satya P. and Mohanty, Adwait K.; *Jrnl of International Economics (Netherlands),* Aug 1984, 17(1) /2: pp. 149-157. Avail. ABI 84-37183

Dumping (COM), International trade, Anti dumping tariffs, Trade policy, Economic theory, Economic models, Resource allocation

East-West Trade: A European View **(11)**

The US and the entire West are confronted with particularly difficult times. World peace is in jeopardy, and mistakes can be ill afforded. The US must take into account the interest and traditions of its allies when formulating strategies. Some factors that must be contended with include: 1. USSR military power, 2. the Mideast diplomatic and political upheaval, 3. the sharply rising prices and the scarcity of oil, and 4. worldwide inflation. All of these factors have dramatically altered the economic and social position of Europe. No problem is as controversial, however, as the policies to be followed in East-West trade relations. Europe's trade with the East now far exceeds that of the US.The principles which should guide Western policies in the field of East-West trade include: 1. Trade should be pursued with the Eastern bloc. 2. One cannot lessen the expansionist impact of Soviet policies by withholding trade. 3. Growth of trade strengthens elements and individuals inside the Soviet society which are recognizably committed to detente with the West and to peaceful policies. 4. The danger of "Finlandization" of Europe and the West remains a theoretical possibility, not a reality. 5. Some well-defined areas of strategic importance should be excluded from East-West trade. 6. A distinction should be made between trade with the Soviets and Eastern bloc nations. 7. Strategy for trade with the Soviet bloc must be a common policy for all Western nations. 8.