INTERNATIONAL TRADE POLICY

FROM TARIFFS TO THE NEW PROTECTIONISM

DAVID GREENAWAY

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Preface

International Trade Policy grew out of the author's experiences in teaching a final-year undergraduate course in International Economics at the University College at Buckingham; a substantial part of this course is devoted to trade policy, in particular the 'new protectionism'.

The text is written principally for the consumption of undergraduates following courses in International Economics and International Trade. It therefore presumes familiarity with the principles of basic microeconomics and (although mathematical exposition is used sparingly) basic mathematics.

In this text an attempt is made to review and, where possible, synthesise theoretical and empirical aspects of tariff and non-tariff interventions, while emphasising the institutional framework within which tariffs have been gradually replaced by non-tariff instruments as the principal tools of commercial policy. There are therefore chapters which deal with the economic effects of tariff and non-tariff instruments as well as chapters outlining the methodological difficulties of quantifying their effects. In addition, there are chapters dealing with the emergence and operation of GATT and recent threats to the credibility of that organisation. Finally, for completeness, there are chapters which identify the forces which result in international specialisation and exchange, and adjustment difficulties which may be associated with the process.

Deciding how best to organise this material proved a little difficult. The obvious way would perhaps have been to group together theory chapters, empirical chapters and institutional chapters. From the reader's point of view, such an approach would have had advantages in facilitating immediate comparison between tariff and non-tariff instruments. Instead, however, the material has been ordered in such a way that theoretical, empirical and institutional aspects of tariff barriers are grouped together, and similarly with non-tariff barriers. It was felt that not only did this provide the opportunity for the reader to be presented with a fairly complete and integrated review of economic aspects of each type of instrument, but also that it lent some loose chronological ordering to the material.

The text does not cover every aspect of commercial policy, the most obvious exclusion being a consideration of customs-union theory.

The exclusion clauses in the GATT articles dealing with customs unions have undoubtedly influenced economic integration in Western Europe quite significantly. We simply allude to such issues *en passant*, however, in part to give due emphasis to the new protectionism, in part because economic integration is an issue which is already given adequate coverage in the textbook literature.

A great many people have assisted, whether knowingly or otherwise, in the preparation of this volume. Chris Milner (University of Loughborough) read the entire draft manuscript and made a great many helpful suggestions. In addition, one or more chapters were perused by Hugh Corbet (Trade Policy Research Centre), Andrew Mason (University College at Buckingham), David Sapsford (University of East Anglia) and Ron Shone (University of Stirling). All of the chapters in question underwent improvement as a result of comments from these individuals. Some of the policy chapters were prepared while I was a Visiting Scholar at the Graduate Institute of International Studies in Geneva and these benefited from conversations with Gerard Curzon. Despite such extensive advice, errors of commission and omission no doubt remain for which I alone am, of course, responsible.

The draft chapters and subsequent revisions were conscientiously and expeditiously typed by Linda Waterman, who as well as compiling the manuscript drew my attention to many grammatical errors.

Finally, my wife Susan and my children Stuart and Daniel deserve my warmest thanks for their encouragement and forbearance. Much of the time expended on this text should perhaps have been leisure time, a substantial share in which would have been theirs.

Buckingham
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DAVID GREENAWAY

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Introduction

INTERNATIONAL TRADE: SOME ORDERS OF MAGNITUDE

It is generally accepted that the depression years of the 1930s were the most overtly protectionist era of the twentieth century. Depressionary pressures induced most trading nations to become more inward-looking. By contrast, the post-war era, certainly until the oil shock of 1973, has been a period of sustained growth of output and trade. In part this can be directly attributed to the dismantling of protective barriers erected during the inter-war years, while in part it is attributable to the unprecedented technological development which has taken place.

Table I.1 gives some indication of the extent to which trade increased over the two decades 1955-76. From this we can see that, in value terms, exports increased tenfold. In absolute terms, the value of world exports in 1976 was some ten times the value of UK GNP. Of course, increases by value may merely reflect inflationary forces.[1] When, however, we examine quantum figures, or when we take constant price valuations, a similar picture of a quite remarkable increase in trade still emerges. For instance, either measure suggests that world trade more than doubled in the decade 1963-73.

Taking such aggregate figures may not, however, be very revealing. It gives us some idea of the monetary flows which are likely to be associated with international exchange, but it tells us little about the importance of traded goods *relative* to non-traded goods. How, for example, does the rate of growth of trade compare with the rate of growth of GNP over this period? Still taking all countries together, we find that the annual average rate of growth of exports exceeds the annual average growth of GNP. For the period 1948-73, these figures are 7 per cent and 5 per cent p.a. respectively. This has at least two important implications. First, international specialisation has been steadily increasing. Second, as a direct consequence of the first trend, the welfare of most countries is becoming increasingly and more inextricably linked to the foreign trade sector. In short, countries have in general become more 'open'. The extent to which income and employment in many countries has become 'dependent' on foreign trade can be gauged from Table I.2. This provides indices

TABLE I.1 Networks of world trade, 1955, 1968 and 1976

Destination →	Industrial areas			Developing areas			Eastern trading areas			World		
Origin ↓	1955	1968	1976	1955	1968	1976	1955	1968	1976	1955	1968	1976
Industrial areas	35.7	117.7	435.7	15.8	31.1	138.2	1.3	6.3	33.1	56.7	160.7	622.8
Developing areas	16.5	31.5	180.2	5.9	8.9	57.4	0.6	2.2	10.2	23.7	43.6	253.1
Eastern trading area	1.7	6.1	27.2	0.7	4.0	14.6	6.9	16.7	52.1	9.4	27.0	94.0
World	56.7	99.6	657.4	22.9	45.2	214.5	8.9	25.5	96.5	93.3	237.8	991.0

Note: Figures refer to value of exports (f.o.b) in billions of US dollars.

Source: Compiled from *Networks of World Trade by Areas and Commodity Classes 1955–76*, GATT Studies in International Trade No. 7 (Geneva, 1978) table A.1.

of 'openness' for some fifty-one developed market and less developed economies.[2]

As we can see from Table I.2, activity in the foreign sector accounts for over 10 per cent of GNP in almost all of the countries in the sample. In almost three-quarters of the countries, the index exceeds 20 per cent. If we assume a tendency to balanced trade this amounts to saying that 20 per cent of national income is generated in the foreign trade sector. There are therefore very few countries which could even contemplate withdrawal from the international trading system. It is probable that only a few (physically) large countries would have a sufficiently broad resource base to consider such a step (e.g. the USA, India, the USSR or China). Even these countries would be likely to pay a high cost. Given, however, the interdependencies which trade generates, a great many other nations would pay an even higher cost. In summary, increased specialisation and increased openness have resulted in increased dependence on the traded goods sector, and, through this, increased interdependence. Policy actions which any given country takes affecting its overseas sector have implications for other countries.

The broad pattern of specialisation is also worthy of brief comment at this point. This is summarised by Table I.3. Very broadly speaking

TABLE I.2 Indices of 'openness'

Country	Z	Country	Z	Country	Z
Liberia	78.1	Nicaragua	35.2	Thailand	22.0
Gabon	64.1	Austria	34.5	Sri Lanka	20.0
Swaziland	64.0	Nigeria	32.0	Greece	19.4
Mauritius	60.0	Venezuela	32.0	France	18.6
Botswana	54.5	Korea	32.0	Peru	16.1
Israel	51.2	Sierra Leone	29.1	Colombia	15.0
Singapore	50.0	Sweden	28.6	Sudan	15.0
Netherlands	49.9	Finland	28.0	Australia	15.0
Belgium	48.6	United Kingdom	27.0	Ethiopia	14.0
Denmark	47.7	New Zealand	27.0	Spain	13.4
Ireland	47.1	South Africa	27.0	Japan	12.8
Norway	45.5	Ecuador	27.0	Turkey	9.8
Zambia	45.0	Morocco	25.0	Brazil	9.0
Malaysia	45.0	W. Germany	24.4	Mexico	9.0
Zaire	42.0	Canada	24.0	United States	7.2
Costa Rica	36.0	Italy	22.4	Burma	6.3
Honduras	36.0	Philippines	22.0	India	5.9

Note: $Z = \frac{1}{2}\left[\frac{X+M}{GNP}\right] \times 100$, average for years 1972–7.

TABLE I.3 Structure of merchandise exports

Developing areas	Trading countries' % share of					
	Fuels, minerals and metals		Other primary commodities		Manufactures	
	1960	1977	1960	1977	1960	1977
Low income countries	13	37	70	44	17	19
Middle income countries	25	33	61	30	14	37
Oil exporting developing countries	95	99	4	0	1	1
Eastern trading area	n.a.	24	n.a.	16	n.a.	60
Industrialised countries	11	9	23	15	59	71

Note: n.a. = not available.

Source: Compiled from the World Bank's *World Development Report 1980*, table 9, pp.126–7 (the countries included in each category can be found in this table).

we can see that the merchandise exports of less developed countries are dominated by primary products (fuels, raw materials and foodstuffs), while exports of the industrialised countries are dominated by manufactured goods. Although there have been some changes over the past two decades, as a number of less developed countries have successfully industrialised, the pattern remains of exports of manufactures being dominated by industrial countries and primary products by less developed countries.

Outline of text

In these introductory paragraphs we have discussed certain general features of international trade, and in so doing we have no doubt masked a large number of distinctive differences. We have, however, only been concerned with gaining some idea of the importance of international trade in the economies of the world, and even an overview as *simpliste* as this begs a number of fundamental questions. For instance, why does international exchange play such an important part in the economic well-being of so many countries? What are the benefits associated with trade? What determines the commodity composition of international trade flows? What are the implications of policy designed to restrict or reduce the amount of trade which takes place?

These are basically the questions we will be seeking to answer in this volume. Initially we will examine the factors which are likely to result in goods (and services) being exchanged across international frontiers. This in turn will permit us to comment on what determines the commodity composition of trade. Following this we will examine the gains and losses associated with unrestricted international exchange. This will then put us in a position to explore the issues to which this text is predominantly addressed, namely what policy instruments are aimed at influencing foreign trade flows? What are the implications of using these instruments, and what institutional arrangements exist at present and may exist in the future to encourage co-ordinated actions on trade policy?

Our view of trade policy is necessarily restricted. Our central aim is to comment on the forces behind the changing orientation of commercial policies away from tariff interventions towards non-tariff interventions. Perforce this requires a comparison of the economic effects of a variety of instruments, and where possible empirical investigations. It is important to note that one significant aspect of commercial policy is largely ignored, namely the economic effects of discriminatory trade policies associated with economic integration. This is not intended to imply that this aspect of policy is unimportant. Clearly this is not so. Economic integration and the explicit use of discriminatory trade policy has shaped post-war economic development in a significant way, most obviously in Western Europe.

On occasions we shall refer to the impact of economic integration, for example on the GATT system, but it will really only enter our analysis tangentially. A thorough review of thought on the economics of international integration would require a text on its own. Within the context of our analysis of tariff and non-tariff intervention, its role will only be considered *en passant*.

The text is ordered as follows. Part I reviews a number of explanations of the emergence of foreign trade flows and examines the welfare economics of foreign trade. Part II focuses on tariff interventions. Some economic analysis of the 'positive' effects of tariffs is followed by a review of some of the arguments for tariff interventions. This is followed by a more formal analysis of the concept of effective protection. After a review of the GATT system which has 'supervised' the progressive reduction of tariff barriers during the post-war period, we conclude this part with a chapter which focuses on empirical analyses of tariff liberalisation. Part III opens with a chapter aimed at explaining the reorientation of commercial policy away from tariff towards non-tariff interventions in the late 1960s and 1970s. This is followed by an analysis of the economic effects of non-tariff barriers using partial equilibrium techniques.

We then review the difficulties faced by researchers in establishing the extent to which non-tariff interventions are used and report the results of some empirical work. Part IV briefly considers the context for a possible reduction in reliance on non-tariff barriers. The first chapter in this section looks at the economics of adjustment policy and considers to what extent adjustment assistance can be regarded as a substitute for protection from import competition. Finally, we conclude the text with a few speculative comments on the institutional changes which may be necessary to cope with the 'new protectionism'.

PART I

Causes and Consequences of International Exchange and Specialisation