

NEO-PROTECTIONISM EXTENT & REASONS

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INTRODUCTION: POST-WAR TRADE LIBERALISATION- TO WHAT EXTENT?

BETWEEN THE GENEVA Round in 1947 and the Tokyo Round (1973 to 1979) numerous steps were taken towards world free trade. Average import tariffs on manufactures fell from 40% in the early 1950s to less than 10% in 1974 (World Bank, 1988). In 1983 average applied tariff rates had fallen to 2.5 - 3.2% in the European Community (EC), 4.0 - 4.4% in Japan and 2.3 - 3.5% in the United States (US) (Grilli, Sassoon, 1990). In particular the so-called Kennedy-Round and the Tokyo-Round of the General Agreement on Tariffs and Trade (GATT) brought significant results, and there were even efforts made to bridge the gap between First and Third Worlds. For example, the General Systems of Preferences (GSP) was supposed to be an instrument to promote trade liberalisation amongst beneficiary less developed countries (LDCs) and to support their exports to the developed countries (DCs). However it would be wrong to view this period wholly as a "Golden Age of Free Trade".

The agriculture and textiles and clothing sectors, in particular were subject to highly protective policies even during this time. The Common Agricultural Policy (CAP) of the EC and the Multifibre Arrangement (MFA), (ironically developed under the GATT-umbrella) have their origins in the 1950s and 1960s. The GSP was distorted by special agreements and restrictions and had a utilisation rate of only 35 - 36%. According to Secchi (1990) it even has some indirect protective effect. We must bear these in mind when talking about post-war "liberalisation". However the major task of this essay is to describe the comeback of protectionism since the mid-1970s; its character, its extent and the reasons behind its return.

THE RESURGENCE OF PROTECTIONISM SINCE THE 1970s

The results of the Tokyo Round in the end of the 1970s were the "last hurrah of free trade" (Gray, 1985) in both LDCs and DCs. The roots of the new protectionist wave, which impacted in the 1980s, lie to a large extent in the 1970s. The World Bank (1988) states that the intensity of protection broadly declined until 1974. It

was then that the pattern changed. These new restrictive policies differ from the traditional and well-known strategies. The new protectionism is highly sector-specific, often country-specific, and is not specifically a product of economic nationalism or of neo-mercantilism. The new trend thus involves a growing tendency for non-discriminatory trading policies to be replaced by bilateral or other discriminatory arrangements. Despite the fact that the Tokyo Round also embodied some moves towards elimination of some major non-tariff barriers (NTBs), the use of this instrument gained enormous popularity. By the end of the 1980s 25 to 30% of world trade was administered through NTBs (Grilli, Sassoon, 1990).

THE NATURE OF NON TARIFF BARRIERS

Non-tariff barriers is a generic term for policies such as import quotas, voluntary export restrictions (VERs), the requiring of administrative authorisation from importers, price monitoring procedures, the enforcement of health, technical, or product standards and the discriminatory use of state contracts to favour the indigenous sector. Bhagwati (1988) calls these NTBs "administered protection" because their use does not necessarily imply legislation.

NTBs are difficult to detect. It is nearly impossible to calculate the effects of an NTB. Whilst the decreasing of tariffs create a measurable benefit to other countries and thus have a significant "public relations effect", a country hardly puts itself in the pillory by using NTBs. In addition, NTBs may greatly differ in their degree of restrictiveness; for example, an import license might be granted very liberally and only have a slightly protective character. Ethier (1988) reports many widely used measures which, despite infringing upon the spirit of GATT, are consistent with it in letter. These include

- safeguard measures
- anti-dumping duties (ADs)
- countervailing duties (CVDs)
- responses to "unfair" trade practices

SOME DATA ON THE EXTENT AND COSTS OF NEO-PROTECTIONISM

The trade-weighted average applied tariffs of the major developed countries went down to 2.5-3.4% in 1983 (UNCTAD, 1987), but despite this, 60% of agricultural products and 78% of industrial products are still subject to tariffs (Secchi, 1990). Both industrialised and developing countries tend to have relatively high tariffs and relatively abundant NTBs on those types of products which developing countries tend to export. In spite of the extent of GSPs, discrimination by industrialised countries, especially by the EC against developing countries is

enormous (see Table 1 in appendix). Roughly 20% of the exports of LDCs were directly covered by NTBs in 1986 (World Bank, 1988). Nearly half of world trade in agricultural food products, and 25 to 30% of trade in manufactures is regulated through NTBs. Likewise a study by Finger and Laird (1987) shows a dramatic increase in recent years especially in the use of hard-core NTBs (see Table 2 in appendix).

An empirical study by Laird and Yeats (1990) shows that, overall, the share of DCs imports affected by NTBs nearly doubled between 1966 (25%) and 1986 (48%). The EC shows an increase in coverage of 33%, while the level of US NTB coverage went up by "only" 9%. The same study shows that NTB coverage amongst textiles and clothing has increased from 30 to 89%. Whilst \$30 billion of OECD countries imports were affected by NTBs in 1966 (\$100 billion in 1986 prices), \$356 billion was affected in 1986. Taking steel, automobiles, motorcycles, consumer electronic products, textiles, and footwear together, the estimated number of NTBs quadrupled between 1968 and 1983! For example, in 1973 less than 1% of the automobile trade of the OECD countries (excluding trade with the EC) was affected by discriminatory restrictions, in 1983 this proportion had risen to 50% (OECD, 1985). According to Bhagwati (1988) between 1981 and 1986 the import-coverage indexes of NTBs went up by 18 to 23% for the cases of the major trading areas, (Japan however was an exception to this trend). By 1986 roughly 20% of the LDC exports were directly covered by NTBs (World Bank, 1988).

While in the early 1970s there were less than a dozen VERs, affecting only a few countries, in 1986 there were 99 major known VERs, especially in steel and agriculture (including the Multi-fibre agreement). 55 of these were imposed by the EC, 32 by the US, 14 affected Korea, and 24 Japan. The share of exports under restraint in the Asian Newly Industrialising Countries (NICs) and Japan went from 15% in 1980 to 32% in 1983 (Grilli, 1990).

There are only partial estimates as to the costs of these policies: in the case of agricultural protection, the annual domestic costs of the EC's Common Agricultural Policy (CAP) reached to about \$ 13 billion per year in the mid 1980s. According to an estimate by the World Bank (1988), the costs of protecting agriculture reached 3% of the total farm output in the US, and 16% in the EC. Main victims of this policy are the LDCs. The costs of the industrialised countries protection against developing countries range from 2.5 to 9% of the LDCs GNP; from the DCs point of view the domestic costs of protection range from 0.3 to 0.5% of their GNP (World Bank, 1988). NTBs, offer no revenue to the protecting country and are more damaging than ordinary tariffs; for example, VERs are estimated to cost the importing country up to three times as much as the equivalent tariff protection would (World Bank, 1988).

RATIONALE FOR THE DECLINE OF FREE TRADE

A country's comparative advantage is not "carved in stone". The performance first of Japan, and then in the 1970s of the NICs and the Newly Exporting Countries (NECs) with low labour costs, (and in the case of Japan extremely high levels of productivity) have led to a new international division of labour. These changes in comparative advantage were enormous; for example, the NICs share of world exports of manufactures doubled from 6% in 1963 to 12.1% in 1986. The difficulties in adapting to these changes generated a demand for assistance to socially important industries – traditional labour intensive and vital sectors like textiles, footwear, steel and the chemical industry. This is manifested in the fact that the NTBs of the EC and the US are concentrated in sectors which NICs have a strong and growing presence.

The argument of protection being put in place in order to counteract "unfair practices" is an old one but still remains fashionable. The new protectionism reveals a desire to strike at imports from those producers whose price behaviour was considered most deviant. The excessive use of antidumping measures and countervailing duties is evidence of this attitude. The call for retaliation also rises when home exports are discriminated against on foreign markets. Last Autumn, the US threat to impose tariffs on European products after fruitless GATT negotiations was immediately followed by thoughts about retaliation on the EC side, especially by France.

Doubts as to whether the market is able to arrive, unassisted, at an optimal resource allocation and a satisfactory income distribution have led to the demand to defend existing standards of living and patterns of income allocation by means of protective measures. Neo-protectionism could thus be interpreted as a by-product of the welfare-state. However, such policies directly contradict the theories of welfare economics. For example, European agriculture lives a heavily subsidised and protected life, although a reduction in the size of this sector would easily satisfy the compensation principle. Losers like the farmers could, at least hypothetically, be compensated by gainers (in this case tax-payers and consumers).

The comparative performance of the world's economic main powers is also relevant. Trade liberalisation might be defined as a public good which is provided only if there is an actor in the system large enough not to be deterred by the presence of free-riders and powerful enough to impose discipline if free-riding in the system becomes excessive. The US hegemony in the world of trade has declined (Pearson, Riedel, 1990, Bhagwati, 1988). Hence this may be reflected in a rise in the level of world wide trade barriers.

CONCLUSION

Assuming that all politicians and policy-making economists know about the gains to be had from trade (at least in theory), it is hard to understand why there seems to be a "Law of Constant Protection": if one kind of protection is reduced or removed, another variety simply pops up elsewhere (Bhagwati. 1988). The reasons listed above may give an idea as to why barriers to trade exist and indeed are increasing in number but further investigation is required. The study of the Political Economy of Protection which deals with protection as a good with a certain demand and supply offers a promising avenue of exploration in this regard. It is also important to mention that any policy recommendation (such as the advocacy of Free Trade) that derives from a theoretical construct is only valid if the underlying assumptions are compatible with reality. This fact must enter into the minds of policy-makers.

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APPENDIX

TABLE 1: (ADAPTEED FROM SETCHI, 1990)

Percentage of Industrial country imports to 'hard-core' NTBs. 1981 and 1986

	INDUSTRIAL COUNTRIES		DEVELOPING COUNTRIES	
	1981	1986	1981	1986
EC	10	13	22	23
Japan	29	29	22	22
USA	9	15	14	17
All Industrial Countries	13	16	19	21

TABLE 2: (ADAPTED FROM FINGER, LAIRD, 1987)

IMPORT COVERAGE INDICES OF NTB'S APPLIED BY SELECTED DEVELOPED COUNTRIES 1981-1985

	1981	1982	1983	1984	1985
All Products					
All NTBs	100	104	105	72	74
Hard Core NTBs	100	104	106	109	110
All Products Except Fuels					
All NTBs	100	108	110	114	119
Hard Core NTBs	100	106	109	114	115