

Protectionism, Disorder and All GATT

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There is a certain ambiguity - to put it tactfully - about much of the discussion on both the New International Economic Order and trade liberalisation. I am reminded of the last chapter in Emile Zola's Nana, where Nana - the sometime de luxe prostitute - is lying dying on a bed in a garret and through her window come the shouts of jubilant marching crowds saying, "To Berlin, to Berlin". The point to recall is that this is the first day of the Franco-Prussian War which was to end with Prussian army encircling Paris!

If you look at the formal statements of the debate, apparently it is about progress towards a New International Economic Order. Whereas if you look at the situation, it's quite clear that what has been achieved since 1969 - not, I would stress, simply since 1973 - is a New International Economic Disorder, not a New International Economic Order. It is equally quite clear that what I will call, for lack of a better term, the core OECD economies are talking about is not preserving anything that now exists but recreating the "golden age" of '45-'70 that entered a terminal illness in the late 1960's and expired on the Smithsonian operating table in 1971. If one looks with a cold and calculating eye on '74-'79 changes I think it hard to claim that those conceivably in the direction of a New International Economic Order (as defined in the relevant UN Resolutions) outweigh

those in the other direction. It is within the margin of error which changes are greater, quite apart from the general trend toward disorder which increasingly swamps both types of planned change.

In the second debate is trade liberalisation. In the Tokyo Round, on the face of it, one has a triumphal march toward trade liberalisation. All right, it has some odd grace notes of selective discrimination. True it is selective discrimination of a rather peculiar kind because it is not selective discrimination against the largest sources of imports causing damage. In that case the UK shoe and cutlery industries should be restricting Italy. And countries in general would be restricting Japan. That's not what is being talked about. The Newly Industrialized Countries (and any who would enter that group) are the target even though they account for 5 or 6% of world trade in manufactures.

There are these odd grace notes (or flats and sharps) and a certain faltering in the music. But the basic tune is "wider still and wider may free trade blow, spreading out in grandeur o're protections' show" to the tune of "Land of Hope and Glory".

The New Protectionism

That is a very odd theme song, because what one quite clearly has is the rise of a New Protectionism. One has the MFA. One has the European Steel Cartel (Eurofer). One has the

United Kingdom engaging in overt protection and - granted not by tariffs as such - in subsidizing shipbuilding to a level at which the subsidy is sometimes greater than the wage bill. Indeed, one begins to wonder what kind of protection this is. It would be cheaper to pay the shipbuilding workers not to work than to do this.

We see here a very virulent form of protectionism indeed. It used to be a standard text book joke - or Eurocentric slur - that only developing countries achieved negative value added in manufacturing. I suggest that a large portion of the UK steel products industry has achieved precisely that point. At the same time one now sees a decision to engage in the mystification that structural change results primarily from trade. There are plenty of studies to show that 75-80% of the job loss comes from changes in demand and changes in technology and has nothing to do with trade and that of the balance at most one fifth - say 2-4% - bears any relation to Third World imports into OECD states. The proponents of "Bash the NICs, Save Britain" are engaged either in self delusion, mystification of others, rather nasty scapegoating or a desperate hope that if you clog up one sidechannel of a torrent you will avoid being swept away.

Even when successful in blocking imports, protectionism rarely does much to save jobs. Protection of the Dundee jute industry was successful in the sense that it blocked off imports and

also successful in the sense that all, or almost all, of the ex-jute milling companies in Dundee are now very successful companies. However, if one digs deeper, one discovers that 90% of the jute jobs were lost creating an economic disaster area in Dundee. The purported reason for protection is not to ensure the permanent viability of manufacturers who are unwise enough to be stuck in a declining industry and who have forgotten to make any changes. The purported reason is to protect communities and jobs. Since a standard cited example of successful UK adjustment is Dundee, one is forced to inquire whether after the event people forget why they set out to protect or whether the protection of jobs and communities is a fake or facade and the real intended reason is to protect manufacturers and to hell with the jobs and the communities. In any case, one does little or nothing to save employment by this kind of measure.

And Its Trajectory

One then has another element. I view it as rather whimsical to suppose that the spread of restrictionism is going to be limited to the NICs. As I pointed out, their exports are a trivial part of the problem. Even though trade as a whole is a secondary part, it is a much larger part than NIC exports alone. Therefore I suggest that if the wave of protectionism is built up against NICs it will soon move to fellow OECD core economies - beginning with Japan. The

New Protectionism is cancerous and I suspect, like cancer, it grows at an increasing rate if not cut out. What one is on the verge of, and indeed some of the statements from OECD Heads of Government suggest that they are well aware of this, is a collapse into general protectionism of the kind of the 1930's. Not necessarily an exact re-run - history is not so simple as that. But a Hobbesian trade "war of all against all" with "the devil take the hindmost" (presumptively the UK so far as the OECD core goes). It is hardly self-evident that the protectionism of the 1930's did anything for preserving employment in industrial economies nor for limiting social costs.

To make any progress in dialogue, let alone action, we must face two facts:

1. the fact that in respect of a New International Economic Order we are going nowhere with an increasing belief that either the core OECD economies can't think of anything to propose or that they are deliberately negotiating in bad faith to eat up time. Not perhaps the best of backgrounds for reaching agreement on anything.

2. The fact that in respect to trade we are not talking at the moment about increasing access. In the specific context of Third World economies, we are talking about preventing the removal of access which legally has been available for many years but, now that it is about to be used, is suddenly snatched back.

A former negotiator for an OECD country once remarked that the basis of trade negotiations is to give the maximum concessions possible for those goods and to those countries, which one is absolutely sure cannot - over the relevant time period - make use of them and to include safeguard clauses to protect oneself if one has made a mistake. It's no use discussing the MFA, the call for "selective safeguards", or other manifestations of that trade negotiation strategy, as if one were engaged in a triumphal march toward free trade. One has to stop the rot first if one wants to have either a renewed march toward free trade or a march toward an international trade organisation which would manage trade in a legitimate sense of the word, as opposed to its present use as a codeword synonym for selective protectionism à la MFA.

We have to face the reality that we are in the middle of a growing New International Economic Disorder and of a virulent and rapidly growing New Protectionism. To change reality

it is first necessary to comprehend it. To have a meaningful dialogue leading to relevant agreed action one must avoid self delusion and attempts to delude others about the nature of the present context, trend, and issues at stake. This GATT Round has been a mystification and a force because the real work on the trade front has been constructing the New Protectionism not dismantling the Old. Tokyo's real gains - e.g. on non-tariff barriers - are more than outweighed by its dangerous refusal to face the rise of protectionism, its causes and the possible short and medium term steps to halt and reverse it.

(End First Intervention)

What Is To Be Done?

As preface to a consideration of what might usefully be sought on the trade access front, let me underline my remark that a queer division of labour has developed. In GATT one pretends to have a triumphal march to free trade and off in shadowy holes and corners one has restrictions growing more rapidly than GATT gets rid of them in the light of day. That is the road to a trade war not to free trade nor to any serious indicatively planned trade expansion.

I wish to explore eight relevant conditions and contentions as to what can be done in the short term:

First, the industrial capitalist world has employment and balance of payments problems that are perfectly real. They are going to continue or recur in the foreseeable future. They inevitably give rise to pressures for restrictive trade practices. Second, it is not useful to argue whether forces leading to the New Protectionism constitute a good thing or a bad thing. Very few people would argue it to be a good thing. But it most certainly is a thing and we cannot argue that because it's a bad thing it will wander off and vanish in the 1980s.

Third because the large industrial surplus economies - e.g. Japan and Federal Germany - have the power to retaliate, the full weight of restrictionism is likely to fall first on the peripheral economies and particularly

those which are a little less large (and therefore less able to retaliate by withdrawing markets) than Brazil and a bit less irrelevant to trade in manufactures than Upper Volta. In other words Brazil may be just within the margin of safety, Upper Volta is within the margin of being benignly neglected, but if you are the Philippines or Singapore or Hong Kong you are in the direct line of fire.

Ad Hoc Negotiations and Other Oddities

Fourth, the process of negotiating, imposing, enforcing the New Protectionism almost entirely outside GATT, while preserving the illusion that there is a triumphal march to free trade within GATT, is a dangerous piece of self deception. This is only aggravated by now and again registering as a protocol to GATT something which violates every provision and principle of GATT like the MFA. Therefore I cannot share the Deputy Secretary General's view that it's a good thing that the steel cartel talks are in OECD so GATT can keep its hands pure. I cannot advise GATT to play Pontius Pilate to the crucifixion of free trade.

Fifth, this type of ad hoc negotiation is peculiarly dangerous to the peripheral economies because it tends to pit them one at a time against EEC or the USA or Japan.

But a very good case can be made that the peripheral economies (or the 77 or the Newly Industrialised Economies and other Third World economies or whatever phraseology one prefers) had better hang together because otherwise in the quite foreseeable future, at the least, any increase in their manufactured goods exports to the OECD core states is going to be hung separately by protectionist lynch mobs in the industrial world. This is not quite the same as saying that no differentiation makes any sense, but it is to say that what the Big Three called differentiation in the Tokyo Round is pretty naked selective economic aggression. As a result, those aspects of differentiation which might make sense are suspect because differentiation has become the code word for "divide the 77," "knock out NICs export threat."

The sixth point is to argue that as the New Protectionism will not go away neither freer access nor even, without a great effort, maintenance of the access that legally already exists is likely to be achieved in the immediate future. To limit and contain present damage and halt future erosion of access it is critical to bring the orderly marketing, adjustment time, payments defence issues back within GATT and face them squarely in that forum. (Unless of course GATT wants to go out of business in favour of a new trade organisation that deals with actual problems.)

Seventh, the obligations of the NIC, workably and honestly defined, vis a vis industrial market economies, vis a vis each other and vis a vis the weaker peripheral economies do need some reconsideration and reformulation.

Eighth, so too do the responsibilities of, and the right of others to impose sanctions on, economies with structural visible plus invisible trade surpluses.

Routes Not Taken

Let me set out four assumptions I have not made. I am not working from a general theoretical or operational commitment to free trade. I am not a free trader by conviction or in terms of strategic option advice. In given situations tactical choice may be another matter.

Second, I am not operating on the basis that pure reason and equity overcome particular interests.

Nor do I suppose that the periphery has unlimited negotiating power. I think it has some negotiating power, if only because it is widely recognised that the maintenance of its growth of imports since 1973 has been a critical factor in there being only a long stagnation instead of a full scale recession in the centre. There is quite real bargaining power in pointing out that if you can't raise your exports you are going to have to cut your imports whether you want

to or not and inquiring what will this do for employment and balance of payments in the centre. I stress this because while it is not true that a belief that you have power in negotiations is automatically self-fulfilling, I think it fair to say that a belief that one is powerless in negotiations is automatically self-fulfilling. Thus it is better to start with a slight error toward believing one has more power in negotiations than is the case rather than to start with a major error in the other direction.

The third assumption not made is that legal form or institutional form can, by themselves, solve problems. I would and do argue that inappropriate legal forms and the separation of the imposition of restrictionism from the main body of trade negotiations is an almost perfect example of inappropriate forms causing and preventing the solution of problems.

Fourth, I am not arguing that what is presented here is the sum total of changes needed in GATT. I am basically concerned to deal with what I consider to be a trend - the rise of the New Protectionism - which has to be stopped as a first step before one can make progress in the right direction.

Cut Cartels: Go To GATT

The case against trying to deal with trade issues on a single sector or product basis outside GATT, one by one without any general framework is threefold. First, single sector product arrangements are, by their nature, derogations from what are theoretically vested GATT rights. When they are negotiated in isolation, outside GATT in no real framework, the real break is to have the agreement at all. Thereafter the tightening of the noose raises no new issues of principle and is, in practice, all too easy. Look at the successive versions of the MFA. Its steady erosion from purported orderly management of rapid trade growth to draconic, detailed restrictions has become no matter of principle but simply a matter of marginal changes. If one had a set of rules and sanctions to enforce them within GATT then every renewal or every alteration would be a matter of principle just as much as the initial agreement. I don't say this would guarantee expanded access, but the present form seems to me to guarantee the opposite.

Second, case by case "orderly marketing" amounts to a State substitution of itself for, and/or of support for, private corporate cartels. The history of cartels makes pretty clear that they injure the weak (including, I would note, industrial economy labour) and freeze the status quo. That is not satisfactory from the periphery

point of view. Therefore cartel negotiation on steel is not perhaps the brightest of things for South Korea or Brazil to get themselves involved in from their own point of view and is gravely damaging to the prospects of potential new Third World iron and steel exporters.

Third, any capitalist industrial economy, especially if it is a democracy, responds to a range of enterprises, interest groups and sub-classes. Some of these are basically free traders, some are protectionists, some (perhaps most) have rather more complex positions. If one is negotiating outside GATT on yarns, textiles and garments the state is negotiating in a situation in which it is responding to only one set of groups, the protectionist ones. If one is interested in maintaining access, one would prefer to be in an institutional situation in which the First World State had to respond to its free trade as well as to its protectionist groups.

Toward A Suitable Article 19

There are various problems about using present GATT procedures. Even if Article 19 were more often invoked, instead of creating things like the MFA, problems would remain. Both from the point of view of the invoker and from the point of view of the peripheral economy, Article 19 is inadequate. It was not designed for the purpose of medium term access protection subject to specified limits and wouldn't serve very well. A total reconstruction of Article 19 might, however, give a framework:

First, clearer and tighter criteria are needed for establishing disruption. A clear and present probability of disruption in the immediate future justifying recourse to negotiated access management would also need to be defined. The heading off of a crisis is often easier than its resolution at a latter stage, but the definition must not be such as to allow generalized assertions of "potential harm" to be used as a new code word for generalized, selective protectionism.

Second, provision for the limitations to relate only to country whose high share of rapid increases in import supplies were critical and not to others is reasonable and normally desirable to Third World sources. However, it does require applying that principle across the board even if it meant a fellow member of a preferential trade area (e.g. EEC) and even if it meant Japan or Federal Germany. In most cases the absolute increases, let alone shares of total imports, that are causing the major problems do not come from Third World countries. This is of course not "selectivity" as argued by OECD states at Tokyo - that was a code word for discrimination against low cost (code word "unfairly competitive") periphery exporters first, last and all the time.

Third, strict time limits (and non-renewability of these time limits) with predetermined phasing out should be required for all restrictive arrangements;

Fourth, initial quotas not to be lower than those in

the twelve months preceding formal invocation of the article, and the growth in access to be at least 5% a year in quantity (or constant price) terms.

Fifth, a requirement is needed on the imposing state to negotiate a domestic adjustment transformation programme that would make the restrictions unnecessary - i.e. to require that a state which imposes trade restrictions of this kind to put together a negotiated and superviseable letter of intent somewhat analogous to the IMF borrowing situation.

Sixth, negotiated compensation, market access or cash for actual and reasonably projected export losses should be a required feature of all restriction agreements.

Seven, a ban on "voluntary quota" agreements outside GATT - i.e. making these grounds for GATT punitive action and certainly not providing that they may be registered as protocols to GATT.

Eight, provision of some type of independent arbitral capacity or a fact finding unit reporting to a Governing Board, to pass judgement on breakdowns in negotiation and on asserted violations.

Ninth, some agreement - again in a sense parallel to an IMF letter of intent - with the GATT secretariat responsible for monitoring and reporting on performance.

And tenth, failure to reach negotiated agreement to give either party the right to invoke arbitration but not to impose restrictions unilaterally prior to the arbitral decision. (This means the arbitral procedures would have to be moderately expeditious - certainly not running five years and subject to infinite delay by either party.

Possible Common Concerns

I do not suppose that all of these provisions could be achieved in one go. They certainly could not have been achieved in the dying moments of the Tokyo Round. But I think it necessary to warn also that they do not increase present formally existing access rights. What they would do is minimise the degree to which these rights will vanish as soon as someone tries to use them. The case to be made to the USA, Japan, EEC is that from the point of view of the industrial economies it is vital to stop the advance of the New Protectionism unless they want the present situation to move from stabbing other people (the NICs) in the back to stabbing each other in the back. Unless they want to loose the dynamism of their exports to the Third World countries they do in fact have an interest in reconstructing Article 19 to make restrictionism more genuinely a means to adjustment and not the first step

towards permanent protectionism. Unless they really want to be pressured by the restrictionist lobbies, and not trade ones as well, they have an interest in getting trade negotiations out of the commodity by commodity, cartel basis which may be vaguely convenient for negotiating against the peripheral economies but is not convenient for negotiating with each other or for preserving either exports, price stability, or employment.

A second possible short term point is that GATT has at the moment no parallel, at least not one that anyone has invoked or is likely to invoke - to the scarce currency clause in the IMF. The IMF scarce currency clause has tended not to be invokeable so that it may seem an odd analogue. However, its limit is that the IMF at one and the same time would be invoking the scarce currency clause against an economy and trying to mobilise its scarce currency from its Government or the Group of 10 would do so parallel to IMF. In the context of GATT, if one could define structural surplus reasonably tightly - as I believe can be done and have spelled out in more detail elsewhere - a country which ran a structural surplus - a defined - could, in fact as well as theory, be declared to be a structural surplus state. It would be required to negotiate a solution with a group of the states in deficit with it. If it did not do so the structural surplus economy would be subject to revocation or limitation of its access.

This would appear to be more workable in GATT than it is in the IMF. To tell Federal Germany or Japan that theirs are scarce currencies which cannot be freely used when the IMF and the Group of Ten seek them for IMF and the GAB is a bit difficult. But GATT would not be trying to get anything. The gross structural imbalance in manufactured goods trade is that of Japan. It is deeply destabilizing. However, it came to be it now threatens the growth of global output, trade and employment. Whatever the Japanese may say, if they were faced with all countries in the world being able, under an existing formal procedure, to raise their trade restrictions against Japan 50%, the Japanese might well decide that there was some point in ending a policy of benign, (or malign) neglect of the structural imbalances of her economy. Japan is today the only country in the world which it is not prudent to ask to increase its rate of growth of GDP because the Japanese economy is so structured that an increase in the rate of growth of GDP for Japan normally means an increase in its balance of payments surplus. Similarly the relative efficiency of export, domestic and import distribution (commerce) is a major form of non-tariff protection on which neither the state nor the private sector has chosen to act.

Selective Reciprocity

Two quite genuine issues arise here. To those of the NICs with substantial manufactured goods exports to core economies

and remarkably high tariffs on precisely the same manufactured goods, I suggest that this type of policy is unnecessarily inflamaatory. I do not believe that the Brazilian shoe industry would collapse if the duties were reduced from very high tariffs and import licensing restrictions were eased. The industry is competitive. Further, that level of tariff on a major export gives rise to deep suspicions of dumping.

Second, in any bargaining situation it is usually profitable to make some concrete offers. This is especially true if after calculating costs one finds that the other party views a particular potential offer as one of great value although as far as you can see the costs are not very high.

The real question is whether a workable and fair definition of an intermediate group of economies and the obligations of states can be agreed. Elsewhere, I have offered one tied to GDP per capita (say \$1,500 at '78 prices), share of manufacturing in GDP (say 25%), share of domestic manufactures in total exports (say 25%). I have offered it as a bargaining position toward a definition. I am a little dubious whether any economies other than Hong Kong and Singapore fall in to today. But I am not saying that the intermediate class should have no countries in it, should not grow over time or might not be defined somewhat differently.

The intermediate class should: a) still be eligible for GSP; b) be required to offer reciprocal concessions to core economies and fellow intermediate economies on those particular manufactured goods in which an intermediate state had substantial exports to the core economies (and/or to fellow intermediate economies). (The goods would need to be defined sensibly e.g. one would have to say cricket equipment not sporting goods, sulphuric acid not non-organic chemicals, hand made leather shoes not footwear. But in cases like that it would appear that willingness to negotiate reciprocal concessions would a) be prudent and b) not self evidently damaging); c) be required to give the same concessions as core economies to peripheral economies.

The question of economic relations among Third World economies is not primarily a GATT issue, or at least should not be. Primarily one needs an enabling clause so that intra periphery trade groupings don't constantly require GATT waivers or wierd pretences that what is being done is taking the first step toward forming a free trade area. Once such a general waiver/enabling clause is adopted, more semi or non-reciprocal arrangements should be negotiated in ad hoc, regional or global Third World contexts. First World support is needed to change the GATT rules. The arguments are that if EEC is - in

practice - not a GATT affair there is no case why - e.g. - a Southern African Economic Coordination Zone should be. Further at the present and for the foreseeable future North-South trade is limited by South exports to the North. South-South trade will not reduce N-S trade but increase total South trade (S-S plus N-S). Therefore, it is not a direct threat to North trade albeit it would, by increasing options and reducing structural imbalances, erode centre hegemony.

A Glance Further Ahead

So far I have been talking about what needs to be done rather urgently. From the point of view of the industrial economies the goal is to prevent the collapse of a system of relatively freer trade than has existed for any previous 30 year period about their ears. From the peripheral economies' viewpoint the goal is to preserve as much as possible of the access that they legally have at the moment and thereby preserve the possibility of raising manufactured and processed exports to the core OECD economies.

In a slightly longer term peripheral economies must consider how they can operate in GATT. On my estimate,

it takes 20 or 30 full-time professionals to play the "GATT game". US government internal studies show that the USA has had an average of 160 professionals working on the Tokyo Round full-time since 1973. Doubtless the US is bigger and concerned with more particular products, but this is an area in which there are economies of scale. The number of peripheral economies that can devote even 20 or 30 full-time professionals rather low.

Second in terms of offers, given the MFN (Most Favoured Nation) clause, it is rather dangerous to engage in bargaining with anybody other than one of the "Big Three" - i.e. EEC, USA or Japan. To a degree the cure lies in the Third World's hands. The 77 or regional groups could put together joint professional teams serving more than one country to produce joint offers also covering more than one country. Once one had two or three regional groupings of Third World countries - or a single or aggregated Third World team and offer - first there should be no particular difficulty getting an adequate number of professionals and second an offer that was "large" enough that it would be of interest to the Big Three and a bargaining position strong enough to lead to dialogue not mendicancy.

One area in which something might be achieved turns on the fact that most First World countries want trade export

led expansion. They want this within - at the longest - two or three years. If one seeks to spell this out it implies export led expansion financed by First World countries guaranteeing some type of commercial bank loan to peripheral economies. For the industrial economies the gain is renewed growth in exports, output, surplus and employment. The quid pro quo from the peripheral economy point of view is partly whatever investment could be maintained from the loan imports but more critical that when the period of loan financed exports ended there would have to be freer trade access so that the loans could be repaid and the enhanced First World exports continued.

The type of package sketched may be negotiable simply because many First World economies, for rather peculiar theological reasons, think that the way to regain growth is not by public expenditure but by additional private sector production directed to exports. To achieve that the practical requirements are that a) peripheral economies be able to import something now which apparently means guaranteed medium term bank loans and b) unless a financial or an industrial economy export crisis is to follow immediately by the end of the loan period the Third World importers must have additional exports so they can service the loan. That a medium term possibility does exist along these lines is not negated because the aid actually is aid to First World export industries. The potential Third World gains turn more on greater access to trade than on the loan itself.

Looking still further ahead free trade cannot be the whole answer. However, significant progress toward globally managed trade expansion within a broad indicative planning frame has several preconditions which are not met today:

- a. the New Protectionism must be contained and turned back - genuinely, not by Canute like pronouncements datelined from resort beaches;
- b. some workable and equitable system of globally supervised, limited use of restrictions to meet genuine problems of sudden import changes by adjustment needs to be created and implemented well enough to acquire a degree of core and 77 government confidence;
- c. the 77 - and the smaller industrial economies - must be confident that either a reformed GATT or a revived ITO (International Trade Organisation) gives a framework in which they can participate on reasonable terms, a view they (quite rightly) do not take of the present GATT;
- d. the violent suspicions and negative reactions to certain Tokyo Round code words "managed free trade", "planning", "selectivity", "graduation". "unfair competition" must be allowed to fade with the passage of time and caused to drop with success in an initial process of halting the rise of the New Protectionism.

These preconditions all seem to turn on successful short term action. That action is largely a tactical defense of certain aspects of the GATT free trade system which are - whatever their limits - are better than any alternative attainable today. It forms the bulk of this presentation not because it is more important than longer term proposals but because it is both important in itself and a necessary (though not sufficient) condition for subsequent changes.