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Trade Liberalization, Protectionism and Interdependence: GATT S Studies in International Trade, No. 5 by Richard Blockhurst, Nicholas Marian and Jan Tumlir and Trade Negotiations in the Tokyo Round: A Quantitative Assessment by William Cline, Noboru Kawanabe, T.O.M. Kronsjö and Thomas Williams

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cumstances, moral and social obligations, human feeling (*ninjo*), friendship (*yujo*) and sincerity (*magokoro*). These factors are more important than the details of the agreement itself in ideal Japanese contractual relationships.¹⁷

The volume of essays which Professor Henderson and his colleagues have produced is an extremely valuable contribution to the growing body of literature on Japanese law, a field well worth the careful study of American scholars. Due to the rapidity and intensity of contemporary Japanese industrial development in a severely limited geographic region, many problems are reaching critical intensity earlier than they have in North America. Consequently, there are fields of law on Japan which provide valuable comparisons for us. Among them are environmental law, consumer protection, mass communications and forensic medicine.¹⁸ Japanese constitutional law in the first twenty years of the new Constitution received a massive transplant from the West. It is quite possible that the West may now learn something valuable in return from a study of the developing constitutional theories and practices of the Japanese.

17. This aspect of Japanese law has been very well presented in HENDERSON, *CONCILIATION AND JAPANESE LAW* (1965) and in a study by D. MITCHELL, *AMAERU: THE EXPRESSION OF RECIPROCAL DEPENDENCY IN JAPANESE POLITICS AND LAW*, (1976).

18. See Masami, *Postwar Japanese Law and Legal Studies*, 7 THE JAPAN FOUNDATION NEWSLETTER (1979).

IMANUEL WEXLER*

TRADE LIBERALIZATION, PROTECTIONISM AND INTERDEPENDENCE: GATT STUDIES IN INTERNATIONAL TRADE, NO. 5. BY RICHARD BLOCKHURST, NICHOLAS MARIAN AND JAN TUMLIR. Geneva: General Agreement on Tariffs and Trade, 1977, vii and 79 pp.

TRADE NEGOTIATIONS IN THE TOKYO ROUND: A QUANTITATIVE ASSESSMENT. BY WILLIAM CLINE, NOBORU KAWANABE, T.O.M. KRONSTJO AND THOMAS WILLIAMS. Washington, D.C.: The Brookings Institution, 1978, xiv and 314 pp., indexed.

Almost twelve years elapsed between the conclusion of the Kennedy Round of trade negotiations and the tentative conclusion of the Tokyo Round in the spring of 1979.¹ This was the longest period devoid of visible accomplishments

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1. It is so named because its initiation had been decided upon during a ministerial meeting which took place in Tokyo, September, 1973.

in the area of trade liberalization in the thirty-two year history of the General Agreement on Tariffs and Trade (GATT).² It was also a period marked by profound and unsettling changes in international economic relationships, as well as in the underlying assumptions and attitudes upon which they had been based.

The deterioration of the U.S. balance-of-payments during the sixties, which led eventually to the suspension of the dollar's convertibility into gold on August 15, 1971,³ spelled an end to the relative stability of the Bretton Woods system. Fixed exchange rates soon gave way to regimes of floating rates, characterized by recurrent movements of funds from one currency (especially the dollar) to another. Successive attempts to reform the international monetary system failed to produce permanent solutions.⁴ Periodic North-South dialogues — or, more correctly, confrontations — proved hardly more successful in producing lasting agreements on trade and foreign aid issues. Continuing changes in comparative costs and relative prices brought about significant changes in trade patterns, especially between developed and developing nations; but readjustments to such changes were rendered all the more difficult as national authorities struggled to cope with an alternating sequence of inflations and recessions. Growing energy demands coupled with OPEC's price and supply policies served to aggravate trade deficits and intensify domestic economic problems in many countries.

In light of these developments, it is not surprising that the calls for a new international economic order in the sixties have become muted by stop-gap efforts to patch up the existing regime. Nor is it surprising that the very notion of global economic interdependence — with its implied commitment to the progressive elimination of trade barriers — has been increasingly challenged in recent years. This change in attitude manifests itself in various ways, ranging from opposition to further reductions of existing tariffs to outright demands for increased protection. As if to demonstrate its own grave concerns, the U.S. Congress took a long time before responding to the Administration's repeated requests for renewed trade-negotiating authority. Only in late December 1974, seven and a half years after the previous authorization had expired, did Congress finally enact the necessary legislation in the form of the Trade Act of 1974.⁶ Although the Act empowered the President to enter into trade agreements with foreign countries during a five year

2. October 30, 1947, 61 Stat. pt. 5, at A 11, T.I.A.S. No. 1700, 55 U.N.T.S. 194 (1950). GATT is a multilateral agreement governing national action in trade policy matters.

3. See 33 INT'L FINANCIAL NEWS SURVEY 261 (1971); *Press Conference of Secretary Connally*, N.Y. Times, Aug. 17, 1971, at 6, col. 1.

4. See generally IV A. LOWENFELD, INTERNATIONAL ECONOMIC LAW: THE INTERNATIONAL MONETARY SYSTEM (1977).

5. See M. BEDJAQUI, TOWARDS A NEW INTERNATIONAL ECONOMIC ORDER, (1978).

6. 88 Stat. 1978 (1974), Pub. L. 93-618 (codified in scattered sections of 19 U.S.C.).

period, it set a definite limit on his tariff-cutting authority.⁷ It also stipulated that any negotiated agreements involving reductions in, or elimination of non-tariff barriers would have to be specifically approved by Congress.⁸ Thus, while granting the United States the authority to participate in the Tokyo Round, Congress retained for itself the prerogative of passing judgment on some of its prospective results.

It is against this background that the two volumes under consideration should be analyzed. Both address themselves to essentially the same subject: the pursuit of commercial policy within a context of a changing international economic climate. Both studies take as their point of departure the remarkable economic growth and trade expansion achieved since the end of World War II. Both works attribute these achievements to the substantial reductions in tariffs which were accomplished through successive rounds of multilateral trade negotiations under GATT's auspices.⁹ Both volumes deplore the recent resurgence of protectionist tendencies and assert that the economic benefits to be derived from further trade liberalization would far outweigh any economic costs which might be associated with the removal of protective measures. However, it is here that similarities end, and differences begin.

In what may best be described as a general statement of beliefs, the authors of *Trade Liberalization, Protectionism and Interdependence* set out to explore the implications of various trade policies for global economic welfare and growth. Their narrative is largely non-technical though it does draw heavily on theoretical studies and various official documents. It consists of three main parts: (1) a brief explanation of long-term trends in production and trade following World War II; (2) a fairly detailed examination of the argument for further trade liberalization; and (3) an equally detailed analysis of the causes and consequences of current protectionist trends. However, there is one theme that permeates the entire discussion — trade liberalization is preferable to protectionism under almost any conceivable circumstance.

This is not to suggest that the authors are oblivious to existing realities in endorsing freer trade and rejecting protection. They do not ignore the various economic and political considerations that are bound to influence the direction

7. The Act allows a maximum cut of 60% in all existing tariffs above 5%, and the complete elimination of tariffs of 5% and below. [This prerogative is hereinafter referred to as the "full U.S. authority".]

8. It might be noted here that "nontariff barriers" refer to a variety of measures which serve to discriminate against foreign producers and accord a margin of preference (or protection) to domestic suppliers. Among such measures are: import quotas, subsidies, discriminatory governmental procurement policies, complex customs valuation procedures, variable levies on agricultural imports, usually stiff product standards applicable to imports, etc.

9. Six previous rounds of multilateral trade negotiations have taken place between GATT contracting parties. These rounds have been labelled as follows: Geneva Round, 1947; Annecy Round, 1949; Torquay Round, 1950; Japanese Accession to the GATT, 1955; Dillon Round, 1959; and Kennedy Round, 1964. See generally UNITED STATES TARIFF COMMISSION, *TRADE BARRIERS* (1974).

of national commercial policies. For example, they correctly recognize that much of the resistance to further reductions of trade barriers stems from a concern about the potential effect of trade liberalization on domestic income distribution and on internal economic stability.¹⁰ They are also correct in interpreting contemporary protectionism as "a refusal [on the part of individual countries] to carry out the adjustments [necessitated] by the continuing change in global supply-demand patterns."¹¹ They are acutely aware that, in a political sense, protectionism is in response to specific demands by well-organized domestic interest groups to protect particular national industries against foreign competition.¹² Nonetheless, the basic presumption is in favor of trade liberalization, and the main purpose of this slim volume is to gather and present the evidence with which to support its case.

To the specialist, the analysis should be quite familiar. All the standard economic arguments for free trade and international specialization are dutifully reiterated: the gains to consumers through lower-priced goods; the gains to production through the displacement of high-cost industries and the efficient allocation of resources; the gains resulting from economies of scale; the gains due to greater competition; and the contributions of free trade to domestic price stability and the control of inflation.¹³ The authors then proceed to examine several arguments against trade liberalization and refute them one by one.¹⁴ Briefly, two main tests appear to constitute the basis for judgment: (1) are the possible losses of some groups, due to trade liberalization, outweighed by larger gains to society as a whole?; and (2) is a restrictive commercial policy the most effective (or efficient) means of solving legitimate domestic economic problems? As may be surmised, the application of these tests results in an affirmative answer to the first, and a resounding negative one to the second.

While the case for free trade is stated in a straightforward and unequivocal manner, the succeeding analysis, entitled 'The Economics and Politics of Protectionism', is much less organized and sure-footed. The discourse, which begins on a pessimistic note, ends with a plea to governments "to help the public, through an informed discussion, to understand the full consequences of different lines of collective action."¹⁵ These "lines of action" are never fully described although judging from the preceding discussion, the authors are obviously referring to the formulation and implementation of various domestic and international policies. However, the authors' conviction that much of the

10. R. BLOCKHURST, N. MARIAN, & J. TUMLIR, *TRADE LIBERALIZATION, PROTECTIONISM AND INDEPENDENCE*, 30, 34 (1977).

11. *Id.* at 43.

12. *Id.* at 43, 52.

13. *See id.* at 23-9.

14. The details of this particular exercise need not be recounted here. For these details *see id.* at 30-41.

15. *Id.* at 43.

blame for present economic difficulties and uncertainties lies with the "spread of the new protectionism" is quite clear. To overcome these difficulties, governments are responsible for the creation of "a stable framework of rules and policies" guided by "general and mutually compatible principles."¹⁶ Protectionism, as a policy option, has no place in such a framework. On the contrary, "it exploits and fosters a misconception of a society's internal and external interests . . . and feeds on a misunderstanding of the true consequences of the different policies by which governments try to secure these interests."¹⁷ That is the ultimate conclusion of the GATT's study.

A much more precise and illuminating set of conclusions is offered by the authors of *Trade Negotiations in the Tokyo Round: A Quantitative Assessment*. They, too, acknowledge and lament the presence and constraining influence of protectionist pressures. However, their attention is focused on the actual process of negotiations in the Tokyo Round and the potential impact of its outcome.

The Tokyo Round (1974-1979) has been the longest and most complex session of multilateral trade negotiations since World War II, involving ninety-nine countries and dealing with many aspects of international economic policies. Apart from providing for bargaining over tariff reductions, this round of negotiations represented the first comprehensive attempt to come to grips with the proliferation and growing use of nontariff barriers. In addition, it explicitly addressed a number of outstanding issues which have long governed trade relations between developed and developing nations. At its conclusion, the Tokyo Round had produced an impressive package of results: A pledge by the industrial countries to reduce tariffs by an average of 33% on some 5,700 internationally-traded items over an eight-year period; the adoption of six new "codes" to govern and control the use of nontariff barriers; and the adaptation of several of GATT's rules to changing international circumstances particularly to the special interests of the developing nations.

However, this package had not been released when the Brookings study went into press and its exact contents remained unknown for another year or so after its publication. Therefore, the analysis is an economic assessment of the Tokyo Round, based not on the actual outcome of the negotiations but rather on a series of alternative assumptions as to the possible outcomes. Nevertheless, the study offers an objective and realistic insight into the major issues that dominated the negotiations and furnishes useful analytical tools by which the eventual results will be tested.¹⁸

No summary could possibly do justice to the wealth of information and detail contained in this volume. The nature and scope of the study can perhaps

16. *Id.* at 59.

17. *Id.* at 60.

18. For details of the analytical model developed see W.R. CLINE, N. KAWANABEE, T. O. KRONSJO & T. WILLIAMS, *TRADE NEGOTIATIONS IN THE TOKYO ROUND*, ch. 2 (1977).

be appreciated by noting that its authors have undertaken to calculate four sets of trade liberalization effects. These four sets are: 1) change in trade flows; 2) welfare benefits; 3) employment effects; and 4) trade balance effects for each of twelve tariff-cutting formulas corresponding to the principal types of formulas proposed and considered during the course of the negotiations.¹⁹ They also calculated similar effects which are attributable to the lowering of *nontariff* barriers to agricultural trade²⁰ and updated previous estimates of expected increases in trade due to the liberalization of governmental procurement policies.²¹ Finally, the authors present a series of estimates detailing the prospective effects of trade concessions exchanged among the industrial countries on the exports of the developing nations.²²

While none of the major aspects of the Tokyo Round has escaped the quantitative scrutiny of the investigations, the main preoccupation is centered on the economic implementations of trade liberalization for the industrial world. Accordingly, the bulk of the empirical results, as well as the massive data used in calculating them, pertain to eleven geographical tariff areas. These areas are comprised of nineteen countries: the United States, Canada, Japan, Austria, Finland, Norway, Sweden, Switzerland, Australia, New Zealand, and the nine-member European Economic Community (EEC).

The aggregate results of this study suggest that the reduction of existing tariffs could lead to net increases in the industrial countries' imports ranging from \$5.4 billion to \$17 billion. Such increases could in turn, produce a total welfare gain amounting to as much as \$170 billion.²³ Measured against these benefits the potential costs appear to be minimal. Even under the most liberal tariff-cutting formula which could be adopted in practice, the gross displacement of jobs due to tariff reductions is estimated to be less than .02% of the total labor force in the United States and the EEC, .05%, in Japan, and .09%, in Canada.²⁴ Similarly, a 60% cut in the tariff-equivalent of agricultural nontariff barriers would be expected to yield an annual welfare gain of over \$2 billion while causing relatively small job losses: about 1% to

19. These formulas represent different average depths of tariff cuts, defined as the change in tariff as a percentage of the pre-negotiation tariff. They range from a 100% cut — i.e., complete elimination — to cuts averaging around 20%. On the basis of these cuts, an estimate can be made of the resulting trade flows, etc. For detailed description of the formulas, *see id.*, ch. 3 and app. A.

20. *Id.* at chs. 4 and 5.

21. *Id.* at ch. 6.

22. *Id.* at ch. 7.

23. *See id.* at 78, 230. These estimates, which exclude petroleum and textile imports, are based on 1974 data. The \$17 billion increase could be achieved only as a result of 100% cut in tariffs. Tariff cuts under full U.S. authority would yield an increase of about \$11 billion. For the basis of estimating the welfare effect. *Id.* at 139.

24. *See id.* at 232. The adjustment cost incurred by the transitional unemployment of labor in the United States is estimated by the authors at \$600 million or eighty times smaller than the expected welfare gain valued at \$50 billion.

3% of total labor in Japan and .33% of the labor force in the EEC.²⁵ If the degree of protection presently afforded by discriminatory governmental procurement policies was also reduced by 60%, the resulting increases in trade could amount to over \$1 billion.²⁶

Equally significant are the potential benefits that may be reaped by the less developed countries (LDC's) as a result of the Tokyo Round negotiations. The authors estimate that tariff cuts, if carried to the maximum allowed under the full U.S. authority, would raise the LDC's exports by \$2.6 billion annually while a 60% cut in the tariff-equivalent protection of agricultural nontariff barriers would add another \$468 million to their annual export earnings.²⁷ It should be noted that textile trade, which is currently restricted by both tariffs and voluntary export quotas, has been excluded from these projections. Given the prevailing attitude of domestic textile manufacturers, especially in the United States, the authors correctly conclude that the existing system of voluntary export controls would not be dismantled during the negotiations in Geneva. Under the circumstances, tariff cuts alone would not provide a reliable measure of prospective textile exports expansion. Nonetheless, the authors comment that reductions of tariffs on textiles — if accompanied by the removal of quantitative import and export restrictions — could well result in an additional annual increase of \$2.3 billion in LDC's textile exports.²⁸ The total of these potential export gains could raise the annual (non oil) export earnings of the less developed countries by approximately 6% above their 1974 level.²⁹

In conclusion, the confirmed proponent of free trade would undoubtedly find a great deal of comfort in the empirical results, and would heartily endorse the authors' contention that "relatively deep cuts in tariffs and nontariff barriers, *such as the full U.S. authority*, could provide important welfare gains to consumers in industrial countries as well as important export gains to developing countries."³⁰ However, viewing the final outcome of the Tokyo Round, the only relevant set of estimates appears to be the one associated with the tariff-cutting formula which is calculated to yield an average cut of 33%. That particular formula, according to the study's estimates, is expected to produce a \$5.7 billion increase in the industrial countries' imports; a total welfare gain of almost \$140 billion; and an annual increase of \$1.4 billion in the LDC's exports.³¹ How accurate these estimates will turn out to be remains to be seen.

25. *See id.* at 187, 235. The most significant welfare gains are expected to accrue to the EEC and Japan.

26. *Id.* at 235.

27. *Id.* at 226.

28. *Id.* at 210. This is predicated upon the assumption that the tariff cuts are based on the "full United States authority."

29. *Id.* at 236.

30. *Id.* (italics added).

31. *Id.* at 78, 211. The employment effect associated with this tariff reduction is miniscule.