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THE NEW PROTECTIONISM: A RESPONSE TO SHIFTS IN NATIONAL ECONOMIC POWER

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The New Protectionism: A Response to Shifts in National Economic Power

ABSTRACT

The new protectionism threatening the international trading regime is related to significant structural changes in world production that have brought about a decline in the dominant economic position of the United States, a concomitant rise of the European Community and Japan to international economic prominence, and the emergence of a highly competitive group of newly industrializing countries.

For the United States, the adjustment process has been difficult. Government and business leaders have gradually adopted the view that unfair foreign trading practices are the main cause of the country's competitive problems. By focussing on a more vigorous enforcement of U.S. statutes and GATT rules on fair trade, they are able to press for import protection and still maintain that they support the type of open trading regime the United States did so much to establish after World War II.

While it is possible that particular protectionism will continue to spread and lead to an essentially closed international trading order, a more sanguine outcome, supported of the three major trading powers, seems possible. This is the emergence of a regime characterized by more trade-distorting government interventions than at the height of American hegemonic influence and by the existence of a significant group of industries receiving government assistance. However, while new industries will be added to this group, assistance will be withdrawn from others as they lose political influence so that on balance the list need not increase over time or, if it does, only very slowly. Such a regime will not yield the growth and efficiency benefits of an open trading system, but at least it will not lead to the disastrous economic and political consequences brought about by the trading order that prevailed in the 1930's.

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THE NEW PROTECTIONISM: A RESPONSE TO SHIFTS IN NATIONAL ECONOMIC POWER

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1. Introduction

The international trading economy is in the anomalous condition of diminishing tariff protection but the increasing use of nontariff trade-distorting measures. The former trend is the result of the staged tariff cuts agreed on in the GATT-sponsored Tokyo Round of Multilateral Negotiations concluded in 1979. The latter trend, however, is taking place largely outside the framework of GATT and threatens to undermine the liberal international trading regime established after World War II.

This paper relates the new nontariff protectionism to significant structural changes in world industrial production that have brought about a decline in the dominant economic position of the United States, a concomitant rise to international economic prominence of the European Economic Community and Japan, and the emergence of a group of newly industrializing developing countries (NICs). The first two sections describe the rise of the United States to a dominant position in international economic affairs in the immediate postwar period and indicate the types of hegemonic actions taken by this country. Section three briefly traces subsequent shifts in international economic power in the areas of trade, finance, and energy, and section four explains how these latter changes have led to modifications in national trade policy behavior, particularly on the part of the United States. The paper concludes by speculating about the nature of the international trading regime that is evolving under the present distribution of economic power among nations.

2. The Rise in U.S. Hegemony

The role of the United States in the evolution of the modern trading system has been central. Although this country became an important trader on the world scene after World War I, it gave little indication at the time of a willingness to assume a major international leadership role. The American share of the exports of the industrial countries rose from 22.1% in 1913 to 27.8% by 1928 (Baldwin, 1958), but during this period the United States chose political and economic isolation by rejecting membership in the League of Nations and by erecting in 1930 the highest set of tariff barriers in its peacetime history. The failure of the London Economic Conference of 1933 due to the inward-looking economic position of the United States marks the low point of U.S. internationalism in the interwar period.

A major policy reorientation toward participation in international affairs began in the United States during the late 1930s and especially in World War II. More and more political leaders and the electorate generally began to accept the view of key policy officials in the Roosevelt Administration that continued international isolationism would bring renewed economic stagnation and unemployment to the American economy and the likely prospect of disastrous new worldwide military conflicts. Consequently, active participation in the United Nations was accepted by the American public as were the proposals to establish international economic agencies to provide for an orderly balance-of-payments adjustment mechanism for individual nations and to promote reconstruction and development. International trade had long been a much more politicized subject, however, and all that was salvaged (and then only by executive action) from the proposal for a comprehensive international trade organization was the General Agreement on Tariffs and Trade (GATT).

The economic proposals initiated by the United States were not, it should be emphasized, aimed at giving this country a hegemonic role. Rather, they envisioned the United States being one of a small group of nations that would cooperate to provide the leadership necessary to avoid the disastrous nationalistic policies of the 1930s. The envisioned leadership group included the United Kingdom, France, China, and, it was hoped, the Soviet Union.

Hegemony was thrust upon the United States by a set of unexpected circumstances. First, the failure of the United

Kingdom to return to anything like her prewar position as a world economic power was unforeseen. U.S. officials , for example, thought that the U.S. loan of $3.75 billion to the United Kingdom in 1946 would enable the country to restore sterling convertibility and to return to its earlier prominent international role. But the funds were quickly exhausted and it was necessary to restore exchange control. The 1949 devaluation of the pound was equally disappointing in its failure to revitalize the country. Economic reconstruction in Europe also proved much more costly than envisioned. The resouces of the International Bank for Reconstruction and Development proved to be much too small to handle this task and massive foreign aid from the United States became necessary. The U.S. economy also grew vigorously after the war rather than, as many expected, returning to stagnant conditions.

The failure of either China or the USSR to participate in the market-oriented international economy placed an added leadership burden on the United States. But perhaps the most important factor leading to U.S. hegemony was the effort by the Soviet Union to expand its political influence into Western Europe and elsewhere. American officials believed they had little choice from a national viewpoint but to assume an active political, economic and military leadership role to counter this expansionist policy, an action that most noncommunist countries welcomed.

3. Hegemonic Behavior

The significant expansion of productive facilities in the United States during the war coupled with the widespread destruction of industrial capacity in Germany and Japan gave American producers an enormous advantage in meeting the worldwide pent-up demand of the 1940s and 1950s. The U.S. share of industrial country exports rose from 25.6% in 1938 to 35.2% in 1952 (Baldwin, 1958). (The combined share of Germany and Japan fell from 24.0% to 11.4% between these years.) Even in a traditional net import category like textiles, the United States maintained a net export position until 1958.

Static trade theory suggests that a hegemonic power will take advantage of its monopolistic position by imposing trade restrictions to raise domestic welfare through an improvement in its terms of trade. However, like the United Kingdom when it was a hegemonic nation in the 19th century, the United States reacted by promoting trade liberalization rather than trade restrictionism. A restrictionist reaction might have been possible for a highly controlled, planned economy that could redistribute income fairly readily and did not need to rely on the traded-goods sector as a major source of employment generation or growth, but the growth goals of free-market firms together with the nature of the political decision-making process rule out such a response in modern industrial democracies.

Industrial organization theory emphasizes that firms in oligopolistically organized industries take a long-run view of profitability and strive to increase their market share. By doing so, they try to prevent both new competitors from entering the market and possibly causing losses to existing firms and old competitors from increasing their shares to the point where others might suffer progressive and irreversible market losses. U.S. firms organized in this manner seized the postwar competitive opportunities associated with American dominance to expand overseas market shares both through increased exports and direct foreign investment. The desire of U.S. political leaders to strengthen noncommunist nations by opening up American markets and providing foreign aid complemented these goals of U.S. business, which actively supported the government's foreign policy aims. Even most producers in more competitively organized and less high-technology sectors such as agriculture, textiles, and miscellaneous manufactures favored an outward-oriented hegemonic policy at this time, since they too were able to export abroad and were not faced with any significant import competition.

The United States behaved in a hegemonic manner on many occasions in the 1950s and early 1960s. As Keohane (1984, chap. 8) emphasizes, in doing so, it did not coerce other states into accepting policies of little benefit to them. Instead, the United States usually proposed joint policy efforts in areas of mutual economic interest and provided strong incentives for hegemonic cooperation. In the trade field, for example, U.S.

officials regularly pressed for trade-liberalizing multilateral negotiations and six such negotiations were initiated between 1947 and 1962. But the United States traded short-term concessions for possible long-run gains, since the concessions by most other countries were not very meaningful in trade terms due to the exchange controls they maintained until the late 1950s. The U.S. goal was to penetrate the markets of Europe and Japan as their controls were eased and finally eliminated.

One instance in which the United States did put considerable pressure on its trading partners to accept the American viewpoint was in the Kennedy Round of multilateral trade negotiations. At the initial ministerial meeting in 1963, U.S. trade officials - - with President Kennedy's approval - - threatened to call off the negotiations unless the European Community accepted the American proposal for a substantial, across-the-board tariff-cutting rule. Members of the Community had regained much of their economic vitality and the United States wanted economic payment for its earlier nonreciprocated concessions and its willingness to support a customs union arrangement that discriminated against the United States.

In the financial area the $3.75 billion loan to the United Kingdom in 1946, the large grants of foreign aid after 1948 under the Marshall Plan, and the provision of funds to help establish the European Payments Union in 1948 are examples of hegemonic leadership by the United States. American leaders envisioned a postwar international monetary regime with fixed and convertible exchange rates in which orderly adjustments of balance-of-payments problems would take place. When the International Monetary Fund (IMF) proved inadequate to cope with the magnitude of postwar payments problems, the United States provided financial aid until the affected countries were strong enough economically for the IMF to assume its intended role. A U.S. hegemonic role was also exercised in the energy field, as American companies, with the assistance of the U.S. government, gained control over Arab oil during the 1940s and 1950s.

4. Shifts in International Economic Power

4.1 Trade Competitiveness

The hegemonic actions of the United States, aimed at maintaining the liberal international economic framework established largely through its efforts and at turning back the expansion of the Soviet Union, succeeded very well. By 1960 the export market shares of France, Germany, Italy, and Japan had either exceeded or come close to their prewar levels. Among the industrial countries only the United Kingdom failed to regain its prewar position by this time. The restoration of peacetime productive capabilities in these countries meant that the exceptionally high market shares of the United States in the early postwar years declined correspondingly. The 35.2% U.S.

export share of 1952 had dropped to 29.9% by 1960, a figure that was, however, still higher than its 1938 share of 25.6% (Baldwin, 1962).

For manufactured products alone, the picture is much the same. The U.S. world export share decreased sharply from 29.4% in 1953 to 18.7% in 1959, while shares of Western Europe and Japan rose from 49.0% to 53.7% and from 2.8% to 4.2%, respectively (Branson, 1980). The export market share of Western Europe remained unchanged in the 1960s, but the Japanese share continued to rise and reached 10.0% in 1971. At the same time the U.S. share of world exports of manufactures fell to 13.4% by 1971.

While aid from the U.S. government played an important part in restoring the trade competitiveness of the European countries and Japan, the governments of these nations themselves were the prime driving force for revitalization. The French government, for example, formulated an industrial modernization plan after the war and two-thirds of all new investment between 1947 and 1950 was financed from public funds. Similarly, the British government under the Labor Party created an Economic Planning Board and exercised close control over the direction of postwar investment, while even the relatively free market-oriented German government channeled capital into key industries in the 1950s. Government investment aid to the steel, shipbuilding, and aircraft industries and the use of preferential government policies to promote the computer sector are other examples of the use of trade-oriented industrial policies in Europe during this period.

Japan is perhaps the best-known example of the use of government policies to improve international competitiveness. During the 1950s and 1960s the Japanese government guided the country's industrial expansion by providing tax incentives and investment funds to favored industries. Funding for research and development in high technology areas also became an important part of the government's trade policy in the 1970s. Governments of newly industrializing developing countries use industry-specific investment and production subsidies to an even greater extent than any of the developed nations in their import substitution and export promotion activities.

Not only had the prewar export position of the United States been restored by the late 1960s, but the period with an absence of significant import pressures in major industries with political clout had come to an end. Stiff competition from the Japanese in the cotton textiles industry was evident by the late 1950s, and the United States initiated the formation of a trade-restricting international cotton textile agreement in 1962. A broad group of other industries also began to face significant import competition in the late 1960s. The products affected included footwear, radios and television sets, motor vehicles and trucks, tires and inner tubes, semi-conductors, hand tools, earthenware table and kitchen articles, jewelry, and some steel items.

Trade pattern changes in the 1970s and early 1980s were dominated by the price-increasing actions of the Organization of Petroleum-Exporting Countries (OPEC). This group's share of world exports rose from 18.2% in 1970 to 27.3% in 1980 (Economic Report of the President, 1985). By 1984 OPEC's share, however, had fallen to 23.5% as the power of the cartel declined. During this period the U.S. export share fell from 13.7% to 10.9%, while that of the European Community dropped from 36.1% to 30.7%. Japan, however, managed to increase its share from 6.1% to 8.4%. The latter figures reflect Japan's continued strong performance in manufacturing. That country's share of industrial countries' manufacturing exports rose from 9.9% in 1971 to 15.3% in early 1984 (U.S. Department of Commerce, 1985).

The 1970s and early 1980s were a time of relative stability in the U.S. manufacturing export share, with it rising only slightly from 19.6% in 1971 to 20.1% in 1984. In contrast, the European Community's manufacturing export share declined from 59.9% in 1971 to 54.6% in 1984. Another major development of this period was the increase in the manufacturing export share of the developing countries from 7.1% in 1971 to 11.0% in 1983.

An important feature of the trade pattern shifts in industrial countries during the 1970s and 1980s has been the severe import competition faced not only by labor-intensive sectors like textiles, apparel, and footwear but also by large-scale, oligopolistically organized industries such as steel, automobiles, and shipbuilding. Machine tools and consumer electronic goods have also come under increasing import pressure.

The decline in the dominance of the United States in trade policy matters became apparent in the Tokyo Round of multilateral trade negotiations as well as when the United States proposed a new negotiating round in 1982. As it had in the Kennedy Round, the United States proposed an across-the-board linear tariff-cutting rule at the outset of the Tokyo Round, whereas the European Community again proposed a formula that cut high tariff rates by a greater percentage than low duties. This time the United States did not prevail. The other industrial nations both treated the United States and the Community as major trading blocs whose negotiating objectives must be satisfied. The result was a compromise duty-cutting rule that met the U.S. desire for a deep average cut and at the same time produced the significant degree of tariff harmonization sought by the European Community. At the 1982 GATT ministerial meeting the United States again called for a new multilateral exercise that included negotiations to reduce export subsidies in agriculture and barriers to trade in services. The Community and the developing countries both rejected the U.S. proposals, and it has become clear that the United States can no longer determine the pace or content of such negotiations.

4.2 International Financial and Other Economic Changes

As the decline in the dominant trade-competitive position of the United States became increasingly evident in the 1960's, the United States and many other countries became dissatisfied with the U.S. role in international monetary affairs. Since the supply of gold in the world increases only slowly, the demand for additional international liquidity that accompanied the rapid growth in world trade had to be met by greater holdings of dollars, the other official form of international reserves. However, as these holdings grew, a number of countries became concerned about the freedom from monetary and fiscal discipline that such an arrangement gave the United States and they resented the seigniorage privileges it granted. The U.S. also became increasingly dissatisfied with its inability to change the exchange rate of the dollar as a means of adjusting its balance of payments. Another indication of the decline in U.S. hegemony was the creation in 1969 of a new form of international liquidity in the International Monetary Fund (IMF), namely, Special Drawing Rights (SDRs), designed to reduce the dependence of the international economy on the dollar.

The shift to a flexible exchange rate system in 1971, however, was the clearest manifestation of the decline in U.S. dominance in the monetary field. Although the results of this action have not given countries the expected degree of freedom from U.S financial influence, the role of the dollar as a reserve and vehicle currency has declined. Another institutional change directed at reducing the monetary influence of the United States was the formation of the European Monetary System in 1979.

The severe difficulties faced by the industrial nations in the energy field as a consequence of the success of OPEC have already been mentioned. This development was an especially devastating blow to the international economic prestige of the United States.

5. Trade Policy Responses to the Redistribution of National Economic Power

The non-hegemonic members of the international trading regime, i.e., countries other than the United States, responded to the inevitable industry disruption caused by the shifts in comparative cost patterns in a manner consistent with their earlier reconstruction and development policies. With the greater postwar emphasis on the role of the state in maintaining full employment and providing basic social welfare needs, these governments intervened to prevent increased imports and export market losses from causing what they considered to be undue injury to domestic industries. Assistance to industries such as steel and shipbuilding injured by foreign competition in third markets took the form of subsidies, including loans at below-market rates, accelerated depreciation allowances and other special tax benefits, purchases of equity capital, wage subsidies, and the payment of worker social benefits. Such activities had been an integral part of the reconstruction and development efforts of the 1940s and 1950s, and the provisions of the GATT dealing with subsidies other than direct export subsidies did not rule out such measures.

Because of the difficulties of modifying the tariff-reducing commitments made in the earlier multilateral trade negotiations, import-protecting measures generally did not take the form of higher tariffs. By requiring compensating duty cuts in other products or the acceptance of retaliatory increases in foreign tariffs, increases in tariffs could have led to bitter disputes and the unraveling of the results of the previous negotiations. Therefore, to avoid such a possibility, governments negotiated discriminatory quantitative agreements outside of the GATT framework with suppliers who were the main source of the market disruption. For example, quantitative import restrictions were introduced by France, Italy, the United Kingdom, and West Germany on Japanese automobiles and on radios, television sets, and communications equipment from Japan, South Korea, and Taiwan (Balassa and Balassa, 1984). Flatware, motorcycles, and video tape recorders from Japan and the NICs of Asia were also covered by such import restrictions by various European countries In the agricultural area, which had been excluded from most of the rules of the GATT, governments did not hesitate to tighten quantitative import restrictions (or restrictions like those under the European Community's Common Agricultural Policy that have the same effect) or provide export subsidies to handle surpluses produced by high domestic price-support programs.

In the United States the disrupting effects of the postwar industry shifts in competitiveness throughout the world produced basic policy disputes that continue today. Except for the two politically powerful oil and textile industries, until the latter part of the 1960s import-injured industries were forced to follow the administrative route provided for import relief under the escape clause provision of the GATT. Moreover, many of the industry determinations by the International Trade Commission were rejected at the presidential level on foreign policy grounds, namely, the need for the hegemonic power to maintain an open trade policy. Industry subsidies provided by foreign governments, though subject to U.S. countervailing duty laws, were also largely ignored by the executive branch for the same reason.

The official position of the United States began to change under the strong import pressures of the late 1960s. As their constituents described the competitive problems they were facing, fewer members of Congress accepted the standard argument that a liberal U.S. trade policy was essential to strengthen the free world against communism. The intensity of congressional views on trade issues is indicated by the rejection by that body of President Lyndon Johnson's 1968 request for new trade authority and by the near approval in 1970 of protectionist legislation.

The growing unwillingness of U.S. allies to accept the unquestioned leadership of the United States in international political, military, and economic affairs also caused officials in the executive branch to question the traditional American position on trade.

The view that gradually gained the support of the major public and private interests concerned with trade matters was that much of the increased competitive pressure on the United States was due to unfair foreign policies such as government subsidization, dumping by private and public firms, preferential government purchasing procedures, and discriminatory foreign administrative rules and practices relating to importation. This argument had appeal for several reasons. No new legislation was required to provide import relief; a stricter enforcement of long-existing domestic legislation seemed to be all that was necessary. After a material injury clause was introduced into the U.S. countervailing duty law in 1979, these laws also were consistent with the provisions of the GATT dealing with unfair trade practices. Consequently, stricter enforcement of U.S. unfair trade laws was unlikely to lead to bitter trade disputes with other countries. By placing the blame for their decline in competitiveness on unfair foreign actions, U.S. managers and workers could avoid the implication that this decline might be due to a lack of efficiency on their part. Finally, government officials could maintain that the United States was still supporting the rules of the liberal international regime that the country had done so much to fashion.

The emphasis on the great need for fair trade is evident in the 1974 legislation authorizing U.S. participation in the Tokyo Round of multilateral negotiations. In reshaping the proposal of the president, the Congress stressed that the president should seek "to harmonize, reduce, or eliminate" nontariff trade barriers and tighten GATT rules with respect to fair trading practices. Officials in the executive branch supported these directives not only on their merits but because they deflected attention from more patently protectionist policies.

The new codes that were approved in the Tokyo Round by no means fully satisfied those who strongly stressed the need for fairer trade, but their provisions and the attention that the subject received established the framework for many U.S. trade policy actions that have followed these negotiations. There has been a marked increase recently in the number of antidumping and countervailing duty cases, determinations in such cases rising between 1981 and 1983 from 21 to 50 in the United States and from 31 to 58 in the European Community (Moore, 1985). Another indication of the greater use of these statutes to gain import protection is the increased number of ITC injury findings in antidumping cases, from 8 in the 1961-64 period to 32 between 1980 and 1983. The most important protectionist action taken by the United States since the late 1960's, namely, the gradual tightening of controls over steel imports, has also been justified mainly on the grounds of unfair trade practices by foreign producers. For example, the trigger price mechanism (TPM) introduced by the President Carter in 1978 that in effect established minimum import prices for steel was designed to offset foreign dumping. When a series of voluntary export restraint agreements with leading steel-exporting nations were concluded in late 1984, a spokesperson for the U.S. Trade Representative stated, "We are responding to unfair trade in the U.S.; defending yourself against unfair trade is not, in our opinion, protectionism." (New York Times, December, 19, 1984)

The unfair trade argument has been used in support of most other trade-restricting or trade-promoting actions taken by the United States in recent years. The textile and apparel sectors have been described by government officials as "beleaguered" by disruptive import surges, thus justifying more restrictive import controls. Similarly, when temporary orderly marketing agreements (OMAs) were negotiated in the 1970s with selected East and Southeast Asian countries, the implication conveyed was that these were responses to unfair export activities of these nations. Even the Japanese voluntary export restraints on automobiles were sometimes justified by American industry and government officials on the grounds that the industry's competitive problem was in part due to the unfair targeting practices of the Japanese government. On the export-promoting side, it is routinely claimed that subsidized export credits through the Export-Import Bank and special tax privileges to exporters establishing Foreign Sales Corporations are necessary to counter unfair foreign practices in these areas. In short, fair trade arguments using such phrases as the need for "a level playing field" or "to make foreign markets as open as U.S. markets" have become the basic justification for the greater use of trade-distorting measures by the United States.

5. The Future of the International Trading Regime

The U.S. fared well economically in its hegemonic role: American exporters and investors established substantial foreign market positions from which they are still benefiting greatly. The open trade policy that U.S. officials were able to maintain for so long also promoted growth and resource-use efficiency and thus extended the period of U.S. economic dominance. But the postwar recovery of Europe and Japan and the emergence of the NICs brought an inevitable relative decline in U.S. economic and political power. The comparative economic position of Western Europe also receded from its postwar recovery level as Japan and the NICs grew more rapidly. The outcome has been an increase in industrial-country protection that takes the form of nontariff trade-distorting measures.

No country or country group is likely to assume a dominant role in the world economy during the rest of the century. Japan would seem to be the most likely candidate for this leadership role with its highly competitive industrial sector, but it appears to be too small economically to be a hegemonic power. Moreover, like the United States in the 1920s, Japan is still quite isolationist. Government officials and businessmen are conditioned by the disastrous outcome of the country's expansionist efforts in the 1930s and 1940s and by its past history of inwardness. Furthermore, when a potential hegemonic nation first demonstrates its competitive strengths over a wide range of products, certain traditional sectors, for instance, agriculture, that are faced with difficult adjustment problems tend to be able to prevent the national commitment to trade openness required by a dominant economic power. This occurred in the early stages of both the British and American rise to economic dominance and is now hampering Japan from making a commitment to openness commensurate with its competitive abilities. In addition, Japanese consumers have not yet developed the taste for product variety needed to make Japan an important market for foreign manufactured goods. The European Community possesses the size and resources to be the dominant economic power, but the very diverse economic nature of its members and the severe structural adjustment problems faced by almost all of them preclude a hegemonic role for this economic bloc.

The United States remains the country most able to identify its trading interests with the collective interests of all. However, a number of the industries that were the most competitive internationally during the rise of U.S. hegemony have become victims of their success. The relatively high profits these oligopolistically organized industries were able to maintain provided the investment funds needed to take advantage of the expanding market opportunities at home and abroad. But their economic structures were also favorable to the development of powerful labor unions that wished to share these profits through higher wages. The outcome was wage increases in these industries that far exceeded wage increases in manufacturing in general. Consequently, as other countries developed their productive capabilities, these American industries found themselves penalized by above-average labor costs and an institutional framework that made it very difficult to adjust to the new realities of international competition. Management in some of these industries also failed to keep up with the most advanced practices. Another very important feature of these industries is their ability to obtain protection by exerting political pressure at the congressional and presidential levels, if they fail to gain it through administrative routes involving the import-injury, antidumping, and countervailing duty laws.

As a consequence of these developments, protectionism has gradually spread in the United States as such industries as steel and automobiles have come under severe international competitive pressure. European governments are faced with even stronger protectionist pressures for similar reasons and have also moved toward more restrictive import policies. As Mancur Olson (1983) has argued, organized common interest groups such as these industries tend to delay innovations and the reallocation of resources needed for rapid growth.

There seems to be no reason why the recent trend in nontariff protectionism at the industry-specific level will not continue in the United States and Europe and become more important in Japan. But one should not conclude from this that the present international trading regime will turn into one where protectionism is rampant. There are - - and will continue to be - - dynamic, export-oriented industries in the older industrial countries that will seek access to foreign markets and see the relation between this goal and open markets in their own country. Moreover, such industries will have considerable political influence, as U.S. high technology and export-oriented service industries have demonstrated. These sectors will continue to provide the United States, Western Europe, and Japan with the economic power that makes international openness a desirable trade policy objective. Consequently, none of these trading blocs is likely to adopt a policy of general protection.

But will not creeping protection at the industry level eventually bring a <u>de facto</u> state of general protection? This is, of course, a real possibility. However, the reason this need not follow is that protection usually does not stop a decline in employment in declining industries. Even politically powerful industries usually only have sufficient political clout to slow down the absolute fall in employment. Furthermore, while employment tends to increase with the fall in imports from the countries against which the controls are directed, offsetting forces are also set in motion. These include a decrease in expenditures on the product as its domestic price tends to rise; a shift in expenditures to noncontrolled varieties of the product, to either less or more processed forms of the good, and to substitute products; a redirection of exports by foreign suppliers to more expensive forms of the item; and, if the import controls are country-specific, an increase in exports by noncontrolled suppliers. The larger industry profits associated with the increased protection are also likely to be used to introduce labor-saving equipment at a more rapid pace than previously.

The continued decline in employment after increased protection is well documented from histories of protection in particular industries (e.g., U.S. International Trade Commission, 1982). In the European Community and the United States even such politically powerful industries as textiles and apparel and steel have been unable to prevent employment from falling despite increased import protection.

There are many factors that determine an industry's effectiveness in protection-seeking. Its size in employment terms is one important factor. With declining employment an industry is likely to face a dimuition of its political power because of a fall in its voting strength and an attendant decrease in its ability to raise funds for lobbying purposes. The decline in the political power of the U.S. agricultural sector as the farm population has declined is an example that supports this hypothesis. It seems likely, therefore, that highly protected industries such as textiles and apparel will gradually lose their ability to maintain a high degree of import protection. Consequently, in older industrial nations the spread of protection to sectors in which newly industrializing countries gradually acquire international competitiveness may be offset by a decrease in protection in currently protected sectors. Counter-protectionist pressures also build up as industry-specific protection spreads. The stagnating effect of this policy becomes more obvious as do the budgetary and economic efficiency costs. A state of affairs may thus be reached in which protectionism will not increase on balance in the current group of industrial countries or only at a very slow rate. Meanwhile, export-oriented high technology and service sectors will encourage continued international cooperation to maintain an open trading regime.

Even if this sanguine scenario takes place, the international trading regime is likely to operate quite differently than it did in the years of U.S. dominance. Industrial countries will seek short-run economic reciprocity in their dealings with each other. In particular, the United States will no longer be willing to trade access to the American market for acquiescence to U.S. international political goals and the prospects of long-term penetration of foreign economic markets. The developing countries and nations with special political relationships with particular major trading powers will probably continue to be waived from the full reciprocity requirement but their trade benefits from this waiver will be closely controlled. Greater emphasis will be placed on bilateral negotiations in reducing nontariff trade distortions, though these negotiations may still take place at general meetings of GATT members. The articles and codes of the GATT will provide the broad framework for such negotiations, but the variety and discriminatory nature of nontariff measures make true multilateral negotiations too cumbersome. Bilateral negotiations will also be used to a greater extent in handling trade disputes. The GATT dispute-resolution mechanism will be utilized by smaller countries in their dealings with the larger trading nations and by the larger nations to call attention to actions by one of their members that are outside of generally accepted standards of good behavior. These means of settling disputes do not differ essentially from the practices followed throughout the history of the GATT.

Greater discrimination in the application of trade restrictions and in the granting of trade benefits is another feature of the emerging international trading regime. The safeguard provisions of the GATT, for example, will probably be modified to permit the selective imposition of quantitative import controls on a temporary basis. It will be justified, at least implicitly, on the grounds that injury-causing import surges from particular suppliers represent a form of unfair competition and thus can be countered with discriminatory restrictions under GATT rules. Greater state assistance for the development and maintenance of high technology and basic industries will be another characteristic of the international trading order likely to evolve during the rest of the century. The governments of industrial countries and developing nations will continue to insist on the use of subsidies to develop a certain minimum set of high-technology industries and to maintain a number of basic industries domestically on the grounds that these are needed for a country to become or remain a significant economic power.

The international trading regime described above is not one to gain favor with economists. It will not yield the degree of static economic efficiency or economic growth that economists believe is achievable in an open, nondiscriminatory trading order. But this is an essay on the most likely nature of the future international trading order and not on the regime economists would like to see evolve. Free trade is not a politically stable policy in an economic world of continuing significant structural shifts involving severe adjustment problems for some politically important sectors and the demands of infant industries for special treatment. But neither is general import protection a politically stable state of affairs in modern industrial democracies with dynamic export sectors. Politically stable conditions in this type of world economy involve openness in some industries and protection in others with the set of industries in each category changing over time. The particular mix of openness and import protection can vary significantly, depending on such factors as the country distribution of economic power and the pace of structural change. The present situation in which there are three major industrial trading powers plus a rapid rate of new technology development and international transfer of old technology suggests that the currently evolving trading regime will be characterized by a greater degree of government control and private cartelization than has existed throughout most of the postwar period.

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