

NBER WORKING PAPER SERIES

"NEW" TRADE THEORY AND POLICY A DECADE OLD:
ASSESSMENT IN A PACIFIC CONTEXT

J. David Richardson

Working Paper No. 4042

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
April 1992

I appreciate the constructive comments on an earlier draft of John Ravenhill and the other organizers of the First Australian Fulbright Symposium on "Managing International Economic Relations in the Pacific in the 1990s." This paper is part of NBER's research program in International Trade and Investment. Any opinions expressed are those of the author and not those of the National Bureau of Economic Research.

NBER Working Paper #4042
April 1992

"NEW" TRADE THEORY AND POLICY A DECADE OLD:
ASSESSMENT IN A PACIFIC CONTEXT

ABSTRACT

This paper characterizes and evaluates what has been called variously the new, new-view, strategic, or industrial organization approach to international trade and trade policy. This approach analyzes trade in "strategic environments," those in which small numbers of large, self-consciously interdependent agents interact, and in which their activities themselves are interdependently (strategically) linked. The new view's perspectives have been controversial, but often because they have been misunderstood. Many of its subtler strengths have remained hidden. The misunderstandings and subtler strengths of the approach are the main themes of the paper. Its secondary emphasis is on applied and empirical work in the new tradition and its policy implications, with special regard to Pacific trade and investment.

J. David Richardson
Department of Economics
Syracuse University
Syracuse, NY 13244-1090
and NBER

"New" Trade Theory and Policy a Decade Old:
Assessment in a Pacific Context

CONTENTS

	Page
I. INTRODUCTION	1
II. A SURVEY OF THE SURVEYS	6
III. RECENT RESEARCH	9
IV. MISIMPRESSIONS ABOUT THE NEW VIEWS	13
V. UNDER-APPRECIATED IMPLICATIONS OF THE NEW VIEWS	19
VI. PACIFIC POLICY IMPLICATIONS	30
REFERENCES	38
TABLE 1	49

"New" Trade Theory and Policy a Decade Old:
Assessment in a Pacific Context

I. INTRODUCTION

This paper characterizes and evaluates what has come to be called variously the new, new-view, strategic, or industrial organization approach to international trade and trade policy. This approach, now more than ten years old, analyzes trade in "strategic environments." Strategic environments feature small numbers of large, self-consciously interdependent agents who interact in activities that are themselves often interdependently (strategically) linked. The new view's perspectives have been controversial, but often because they have been misunderstood -- like many ten-year-olds -- and many of its subtler strengths have remained hidden. The misunderstandings and subtler strengths of the approach are the main themes of the paper. The secondary emphasis is on applied and empirical work in the new tradition and its policy implications, with special regard to Pacific trade and investment.

Worldwide industrial organization and patterns of international trade and

investment have changed markedly since the 1950s. In parallel, the economics sub-disciplines of industrial organization and international trade have both undergone significant intellectual evolution. The policy implications of the changes and evolutions have been initially arresting. The new approach to trade policy is essentially an arranged marriage between new trade perspectives and new industrial-organization perspectives.

The new approach to industrial organization and regulation¹ has, for example, called into question traditional regulatory maxims such as: "big" and "concentrated" are per se "bad"; vertical restraints, such as those on distributors' prices and client networks, inhibit competition;² and predatory practices are rarely seen in reality. It has also called into question the traditional treatment of the government regulator as an enlightened agent of the general public, viewing the regulator instead as a self-concerned maximizer. Especially when future private-sector jobs beckon, that maximizer is exposed to strategic private-sector influence, and perhaps capture.

¹ The theory is surveyed by Bonnano and Brandolini (1990), Jacquemin (1987), Schmalensee and Willig (1989), and Tirole (1989). The practice is surveyed by Areeda (1992) for the United States and by Boner and Krueger (1991) for: the United States; Canada and Australia; Japan and Korea; and more than the usual sample of European countries (Sweden and Spain, as well as France, Germany, the United Kingdom and the EC as a whole.). Boner's and Krueger's comparisons have less focus on new-view industrial organization alone, but Ordover (1990) and other contributors to Comanor et al. (1990) blend discussions of the new theory and practice for the United States and major European countries. Vernon, Viscusi, and Harrison (1992) is a textbook that does the same for the United States alone.

² Coate and Kleit (1990).

Likewise the new international trade theory, building on the new approach to industrial organization, has called into question traditional trade-policy maxims: "free" trade is best except for irrelevant optimal-tariff arguments; subsidizing exports shoots a nation in its own foot; most-favored-nation non-discrimination has dominant strategic value; and infant industry protection rarely succeeds in reality.

With questions like these, it is no wonder that the new trade approach has inspired a counter-evolution, with appeals to the authority and wisdom of traditional perspectives, and disparagement of the new academic adolescents for naivety, myopia, inexperience, and worse.³

Yet the new trade theory, properly appreciated, is both simpler and more subtle than it appears. In essence, it proposes marriage -- specifically that the new approach to industrial organization and regulation be wedded to trade policy. The new theory argues that the two are not as distinct as they used to be, and insists that neither trade policy nor competition policy be evaluated independently of the other. This means that every trade policy initiative should account for its effects on national and international market structure, corporate conduct, and competitive performance. Likewise, every competition policy initiative should account for its spillover effects on trade, on foreign investment, and on the efficacy of foreign competition policies.

³ See, for illustration, Bhagwati (1989), Corden (1990), or Haberler (1990).

It is more than a little ironic that the marriage should be considered new at all, or evolutionary. It was arranged long ago. The Havana Charter of the stillborn International Trade Organization contained an eight-article chapter on restrictive business practices with a remarkably modern ring -- it covered fair competition and market access, in both goods and selected services, by both private and state-owned firms. Both the OECD and the UN through UNCTAD have developed voluntary codes to cover some of these concerns. The OECD, in fact, maintains an ongoing discussion of them.⁴

Recently, however, circumstances have been forcing trade and industrial organization perspectives even closer together.⁵ Multinational corporate penetration and alliance-building⁶ have put pressure on governments to rationalize their competition policies and to consider negotiating GATT-like agreements for international investment.⁷ The EC is forging a common competition policy, without respect to borders, in part to avoid circumvention of lower border barriers.⁸ Japanese competition

⁴ OECD (1984a,b,c,d; 1985; 1987a,b; 1988a,b; 1989a,b,c; 1991a); see also Willig (1983), Goldberg and Ordover (1990), and Government of Canada, Bureau of Competition Policy (1991).

⁵ Barton (1990), Brittan (1992), Davidow (1991), Feketekuty (1991), Holmes (1991), Matsushita (1988), Montagnon (1990).

⁶ Graham and Ebert (1991), Julius (1990), Kravis and Lipsey (1989), Lipsey and Kravis (1986), Lipsey (1989, 1991), Ostry (1990).

⁷ Bergsten and Graham (1991), Committee for Economic Development (1990), Julius (1991), and Ostry (1990).

⁸ Brittan (1992), EC Commission (1989, 1991), Rosenthal (1990).

policy has raised unique trade and investment issues.⁹ Accentuated anti-dumping activism,¹⁰ voluntary export restraint arrangements,¹¹ and increased trade protection for intellectual property and high-technology industries¹² have all begun to come into conflict with competition policy. Liberalization experiments in developing countries¹³ have usually involved interdependent mixes of trade-policy and competition-policy reform, and have propelled these countries toward negotiating agreements on intellectual property protection and technology transfer¹⁴ in order to enhance their competitive structure.

The present survey of these trends and the new thinking about them is organized as follows. Part II is a meta-survey. It surveys the many surveys of the new approach. Part III updates them. Part IV attempts to correct misimpressions that have sprung up about the new view, and Part V attempts to highlight some of its subtler charms. Part VI then assesses its importance to Pacific Area trade relations.

⁹ Fung (1991), Ichikawa (1990), Lawrence (1991), Petri (1992), Sheard (1991).

¹⁰ Brooms (1990), Feltham et al. (1991), Lexenomics (1990), Messerlin (1991a,b), Nicolaides (1991a,b).

¹¹ Barton (1990), Holmes (1991).

¹² Jorde and Teece (1992).

¹³ Frischtak et al. (1989), OECD (1991a).

¹⁴ Barton (1990), Deardorff (1990), Maskus and Eby Konan (1991).

II. A SURVEY OF THE SURVEYS

The broad character of new perspectives on trade theory and policy is now familiar to many in the academic and policy communities. A plethora of surveys in the past five to seven years has helped to shape this character.

Since the purpose of this paper is to examine both prejudices and hidden virtues in the common characterization of the new view, it will not attempt one more survey. Rather in this section, we will briefly survey the surveys before moving on to refine the character sketch. It seems helpful to do the meta-survey in tabular format.

One feature that is immediately clear from Table 1's meta-survey is that there is a considerable amount of empirical research on aspects of the new view. Much of this is relatively simple in its methodology: case studies and simple numerical simulations figure prominently, for example. But there is a long history of econometric approaches as well, summarized most completely by Globerman (1988), Goldberg and Ordoover (1991), Lipsey and Dobson (1987),¹⁵ Markusen (1985), and Richardson (1989, 1990a). The

¹⁵ See especially the contribution by Geroski (1987).

consensus of the econometric research¹⁶ surveyed there is that indicators of trade liberalization, such as export growth and import penetration: (i) correlate¹⁷ negatively with measures of corporate market power, such as the proportion by which a firm can raise price above (marginal) cost; (ii) correlate positively with measures of productivity growth; but (iii) have little correlation with rates of entry into or exit from industrial activity. The first two correlations suggest that trade liberalization is indeed still in the national interest, even under conditions of imperfect, strategic competition. The third (lack of) correlation is anomalous. Expectations are that liberalization stirs up creative Schumpeterian ferment, but there is little evidence of this so far.

More recent econometric research, summarized in Part III, supports and refines these findings. From all of it, the first prejudice in the common characterization of the new view becomes clear. The prejudice is that the new view is entirely theoretical, unsupported by empirical evidence. Part IV of this paper discusses several more prejudices.

Part III also attempts to allay one other suspicion of the new view, that its theoretical support derives from simple-minded, old-fashioned, static models of oligopoly

¹⁶ The best examples, often based on panels of industrial plants (that is, data with variation both across plants and over time), are: Caves (1988); de Ghellinck, Geroski, and Jacquemin (1988); Morrison (1989); Roberts (1989); and Tybout (1989). Roberts and Tybout (1991) is an update and extension of the earlier papers.

¹⁷ All these correlations control for relevant determinants of the variable under investigation besides trade liberalization.

and monopolistic competition. The Table 1 catalog suggests that there is much more than this to the new view.¹⁸ Dixit, Grossman, and Helpman especially have pioneered pathbreaking dynamic¹⁹ analyses of trade policies and other government intervention under imperfect competition, to which we now turn.

¹⁸ See especially the surveys by Helpman (1989a,b).

¹⁹ Even so informed a contributor to the industrial activism school as Laura D'Andrea Tyson seems to neglect the new-view "dynamic" models, though some of their conclusions support the industrial activists' policy recommendations. See, for example, the lack of attention in Tyson (1991).

III. RECENT RESEARCH

Analytical, empirical, and policy relevant research in the new approach continues at a rapid rate.

Of recent analytical contributions, Grossman and Helpman's (1991) book-length synthesis of a number of their own papers is especially noteworthy for its synthetic scope. It develops a realistic-but-stylized model of endogenous innovation, growth, and trade, and explores its policy ramifications. The model features the kind of "Schumpeterian" process that is often alleged to undermine traditional policy perspectives based on assumptions of perfect competition. Thus in Grossman's and Helpman's treatment, successful innovators earn the right to price above cost, but need to expend resources, especially human capital on R&D or reverse engineering, and are under constant pressure from new entrants to the production of information. Some specific information can be appropriated, but more general information cannot. The latter creates a positive spillover from R&D activities that can sometimes be kept within national boundaries, but may also spill over internationally. Merchandise trade involves both inter- and intra-industry flows of goods. The assumption that the marginal product of additions to the knowledge stock does not diminish creates a form of economies of scale from simultaneous additions to all inputs. Expectations matter, and historical accidents and temporary government policies can all matter "forever."

Out of this structure comes an ordered cornucopia of scenarios in which trade (and industrial and technological) policies matter, sometimes along traditional lines ("free" trade is often wise²⁰), sometimes along the lines of the industrial activist school (strategic government promotion of selected activities is sometimes wise).

The more impressive contribution of the monograph is the order, the systematic organizing principles for the cornucopia of dynamic policy options. This is not just another new-view contribution in which "anything can happen" (see the discussion of that quip in Part IV). Grossman and Helpman show "on average":

-- how countries that are large in size, knowledge base, and/or abundance of human capital tend indeed to grow faster than others and to specialize in high-technology activities;

-- yet how R&D (with large pro-growth spillovers) and high-technology manufacturing (with smaller pro-growth spillovers) often "compete" with each other for the same human capital, so that a country that favors the latter over the former will often be inhibiting its growth;

-- how the case for trade policy intervention becomes weaker as spillovers become more and more internationally diffused and less and less nationally self-confined;

-- how policy promotion of R&D in countries without comparative advantage in it can slow down growth world-wide, and therefore how much stronger is the case for

²⁰ See Rauch (1991) for the beginnings of empirical work along these lines, examining the growth patterns of Chile before and after trade liberalization in the 1980s.

policy promotion of R&D in locations where it is done most efficiently.²¹

The most noteworthy recent empirical contributions to the new view are econometric.²² Levinsohn (1991) is a contribution in the same vein as Roberts (1989), Tybout (1989), and Roberts and Tybout (1991), referenced in Part II above. For a sample of Turkish plants in industries of varying imperfect competition over the period 1983-1986, he finds the familiar responsiveness of the price-cost margin to trade liberalization: plants' market power, measured by the degree to which they can raise prices above costs, is constrained by the extent of trade openness. Caves and Barton (1990) also find results of the familiar kind -- specifically a fairly tight negative correlation between import penetration ratios and organizational inefficiency in a number of U.S. industries,²³ controlling for other determinants.

Yet several recent econometric contributions cut across the grain of these

²¹ Grossman and Helpman are more careful than my summary to draw the distinction between policies that increase growth rates and those that increase national economic welfare. Not all that do the first do the second, and conversely.

²² Numerical simulation continues, e.g., Norman (1990), Venables (1990), and Klepper (1990), all in the same issue of the European Economic Review; Harris (1989); Norman (1989); Hunter, Markusen, and Rutherford (1991). Case-study approaches also continue, e.g., Industry Commission (1990), Tyson (1991), OECD (1991b). Irwin (1990) represents an approach to economic history from the new view perspective. In general, the conclusions from these varied approaches replicate the conclusions from earlier empirical work in the same tradition.

²³ Their measure of organizational inefficiency is distance from a production function frontier estimated across several industries and time. They have to impose similar structure across disparate industries because they lack the plant-level observations used by Levinsohn, Roberts, and Tybout in the studies discussed above.

traditional conclusions. Dick (1991a,b), for example, takes the observation from new-view industrial organization that horizontal cooperation (collusion) may be procompetitive on balance, and applies it to respective panels of U.S. and Japanese export trading companies (legally sanctioned cartels).²⁴ In both cases, many industries show significant correlations of export price and volume in a procompetitive direction, rather than in an anticompetitive direction (always controlling for other determinants of export supply and demand). Dick interprets this as consistent with the view that horizontal cooperation lowers the overseas marketing costs of exporters and improves the credibility of their quality guarantees.

These recent econometric papers illustrate an important trait of the new view. It is pragmatic -- in exactly the same way as industrial organization is pragmatic. Competition and open markets are on balance good things. But there are exceptions, and these exceptions may warrant policy intervention.

²⁴ The U.S. panel is made up of 16 homogeneous commodities for which Webb-Pomerene Associations existed for certain (but not all) years in a full time series of data running from the 1920s through the 1960s. The Japanese panel is made up of a full time series of data from 1950 through 1984 on 12 homogeneous commodities for which Japanese export cartels were formed at various times during the 1950s and 1960s.

IV. MISIMPRESSIONS ABOUT THE NEW VIEWS

Even a cursory reading of the surveys of Table 1 corrects some obvious misimpressions about the new view. For example, it is immediately clear that the new view reasons from the traditional perspective of overall national economic welfare, not from the mercantilistic perspective of producer interests or export competitiveness.²⁵

The two most fundamental misimpressions about the new view are, however: (1) that it is not new at all, but tired and irrelevant; or, almost perpendicularly to the first impression, (2) that it has sealed the theoretical case for active industrial policy (along Japanese lines, of course).

(1) It's Old Hat. It is easy to form the frustrating suspicion that new-view contributions are merely old mercantilist and federalist arguments -- about optimal tariffs, infant industries, rent seeking, and the strategic importance of manufacturing -- all decked out in the emperor's new clothes of strategic international competitiveness. The new views admittedly do encompass those old arguments.

²⁵ This sometimes sets the new view apart from and at odds with the industrial activist school represented by Cohen and Zysman (1987) or Tyson (1991) or contributors to OECD (1991b).

But they also add considerably more: richer analyses of power, threat, and commitment; tighter reasoning about entry, exit, research and development, reverse engineering, intertemporal incentives, and economic dynamics, reasoning that allows statistical hypothesis testing on at least some questions; and instructive, if not compelling, metaphors from arms races, deterrence, retaliation, bargaining, and coalition formation.

(2) *It's The Greatest Thing Since Sliced Bread.* It is easy to become carried away with the persuasive stories of successful industrial targetting, especially in high-technology sectors, especially by Japan and other Asian high-growth economies. Cautionary distinctions are rare -- to many North Americans, MITI and the Ministry of Finance are monolithic, and chaebol and keiretsu are the same thing in different languages, and equally successful, too. Stories of grave targetting failures are forgotten -- commuter airliners for Japan, supersonic airliners for Britain and France, Synfuels projects for the United States, endless failures for developing countries.

If the new view concludes anything, it is that the case for targetting is complex and necessarily pragmatic. Indeed, since the new view always carries along at least one distortion to the perfectly competitive norm (imperfectly competitive market structure, production externalities, informational asymmetries, or some combination), its assessments necessarily apply to a second best situation, in which information and pragmatic judgment are necessary to draw any normative assessment about trade policy.

The new view has hardly killed the case for free trade; if anything, it has probably strengthened it;²⁶ what has been killed, though, is the ability to defend free trade on the basis of ideology alone -- and that may be just as well.

No single issue illustrates this as well as trade policy toward intellectual property, where the pragmatic case for granting (patent) protected market power in order to facilitate innovation (via appropriability of its rewards) is in constant tension with the equally pragmatic case for gains from free trade in presently protected products and processes. Should intellectual property protection be strengthened, say by trade sanctions authorized by the TRIPs²⁷ negotiations of the Uruguay Round? If so, innovation would be probably enhanced in innovating countries, and increased rents earned by them. But those same innovating countries might gain even more under weaker intellectual property protection if innovations abroad could be imported or copied more quickly and easily, and with less risk and cost (fees, royalties, etc.). Imitator countries might be better off with strengthened intellectual property protection if the global pace of innovation were sufficiently speeded (albeit with slower dissemination), or with weaker intellectual property protection, if the pace of dissemination were sufficiently speeded (albeit from a smaller base of innovations). There is no way to resolve any of these issues "in principle" or ideologically. Factual, objective, pragmatic analysis is the only way, and it could as easily suggest more managed trade in intellectual

²⁶ See Richardson (1989) for an extended discussion of why.

²⁷ TRIP stands for Trade-Related Intellectual Property.

property as freer trade!²⁸

(3) It May Be New, But It's Practically Irrelevant. Still another misimpression, more like the first than the second, is that because industrial competition is fairly "workable" after all, there is little practical relevance to "new-view" perspectives. This (mis) impression observes how rarely markets are truly monopolized, and how rare even duopoly or triopoly is; this, coupled with deductive and empirical evidence that markets of four, five, or more firms begin to behave very much like perfect competitors,²⁹ leads to the verdict that the new views are practically irrelevant.

One trouble with this impression is its obvious inconsistency with the perceived need in every major country for some form of competition policy. Another is the short shrift it gives to the competitive economics of innovation, R&D, and product cycles, discussed in Part III above, where monopoly ownership of patents and privileged market position are the rule, and the reward for innovation. Another trouble is that "new view" perspectives also apply in a perhaps more relevant case, where market power is passed down to labor through monopolistic agents. For example, excess profits may be passed along to workers in the form of wages that are higher than competitive norms. This is especially likely if workers are represented by a union or professional organization which

²⁸ See Maskus and Eby Konan (1991) or Deardorff (1990) for more detailed discussions of various opposing criteria in issues concerning intellectual property protection and free trade.

²⁹ See Breshnahan and Reiss (1991).

has power comparable to that of the employing firms, and which is able to protect its constituency (incumbent membership) from competitive pressure by free entrants (rival workers). Since inter-industry wage differentials are in fact much larger than can be explained using the model of perfect competition, there may be sizable excess profits "hidden" in the wage and professional salary structures of the United States and many other developed countries, even though industrial structure appears workably competitive.³⁰

(4) *It's At Least Relevant To Our Leading-Edge Firms.* And still another misimpression, more like number (2) than number (1), is that new-view targeting should identify strategic firms, not just strategic sectors, encouraging "national champions." Here those who are confused seem to have France in mind, rather than Japan, which has vigilantly insisted on diffusion of information and technological innovation to small firms, precisely to avoid problems of accentuating competitive imperfections and creating unhealthy identification of government with a single corporate interest.

Contrary to this impression, there is surprising agreement among all new-view commentators -- and even among many of the best known industrial policy activists -- that firm-focussed government intervention creates some of the worst economic and political economic incentives for all parties. Thus, for example, the preference ranking

³⁰ See Brown and Garman (1990), Dickens and Lang (1988), Katz and Summers (1989), Salinger (1984), and Thaler (1989).

for types of government microeconomic policies is virtually the same between the activists Cohen and Zysman (1987) and among the economists contributing to Krugman (1986) and Lipsey and Dobson (1987): market-perfecting infrastructure, first; government promotion of saving, education, and R&D, second; trade and industrial policies toward whole sectors, third; firm-focussed policies, fourth, if at all.³¹

(5) It's a Hopeless, Helpless Thicket of Special Cases. Some commentators confronting the complexity of saying sensible things about trade policy in the new view conclude that nothing can be said! But this is an over-reaction. It gives inadequate credit to constructive contributions such as the agreement over policy ranking under (4) above, or Grossman and Helpman's organizing principles in trade policy for innovation and growth (Part III above), or the clear consensus of new-view empirical research and case studies of developing countries that on balance open trade and competition policies are more beneficial than the traditional view implies, not less.³²

³¹ See Richardson (1990b, pp. 117-118).

³² See Richardson (1989, 1990a) and Frischtak et al. (1989).

V. UNDER-APPRECIATED IMPLICATIONS OF THE NEW VIEWS

Many attractive features and conclusions of the new perspective on trade policy are subtle, and not immediately apparent on first encounter.

(1) The "Value" of Reciprocity, Variety, even Dumping. The new views create appreciation for certain features of trade regimes that never fit the traditional perspectives well at all. Thus, for example, "reciprocity" in the new perspective can make trade wars less likely. It can be a convention that heightens the stability of a sequence of cooperative trade agreements among governments, and reduces the chance that recurrent negotiations will devolve toward non-cooperative equilibria.³³ Or, for example, variety in the new perspective is no frivolity. It contributes directly to welfare or productivity, filling niches that precisely match consumer preferences or input specifications, niches that would otherwise be unoccupied. Variety in capital goods and intermediate inputs lowers costs and improves productivity. Intra-industry trade can be as welfare enhancing as traditional trade.³⁴ Or, for example, dumping has certain natural pro-competitive features, as described below.

³³ The language conveys the proper feeling, although the point being made is in fact fairly technical and game-theoretic. See Axelrod (1983) for a seminal contribution in a stream of research that continues to be extended and refined (Science News, January 18, 1992, p. 39, reports on one strand, for instance).

³⁴ See Ravenhill (1992) for evidence that intra-industry trade is increasing sharply in the Pacific region.

(2) The Hidden Costs of Traditionally Sanctioned Trade Remedies. The new view creates new concern about the costs of antidumping remedies and recourse to "voluntary" agreements.³⁵ Antidumping remedies can be invoked in many countries as a result of import pricing below "constructed cost," no matter what the product price is in the source country. The new view shows, however, how often pricing below apparent cost is an efficient business tactic.³⁶ New-view dynamic models show the desirable effects of allowing new generations of products to succeed old, a process that is attenuated or cut off entirely if firms producing the old products can bring successful antidumping suits on the grounds of predation. "Predation" by new and better generations of products is, from this point of view, a quality that enhances productivity, and antidumping activism may undermine growth as well as static efficiency.³⁷

For different reasons, the new view raises caution about "voluntary" practices that fall into grey areas on the fringe of the GATT. "Price undertakings" permitted to settle antidumping suits, for example, have all of the characteristics of price fixing. Voluntary export restraints that set market share ceilings have all of the characteristics of cartels.³⁸

³⁵ See Davidow (1991) and Feltham et al. (1991).

³⁶ See Deardorff (1989) for an approachable summary.

³⁷ Areeda's (1992) comment with respect to antitrust is relevant here as well, "... without a more disciplined test for predation, ... litigation may chill the impulse, perhaps already weak, toward price competition in oligopolistic markets."

³⁸ Price fixing and cartels are the practices least tolerated or rationalized by all nations' competition policies. In the United States, they are per se illegal.

Trade-related performance requirements for investors may often involve anti-competitive export market sharing or exclusive links to local suppliers at the expense of competitive imports.³⁹

Finally, all of these traditionally sanctioned practices can be barriers to entry. Free entry is, in fact, a trait whose benefit is better appreciated in the new view than in the traditional, where it gets taken for granted.

(3) The Advantages of Maximally Free Entry. One of the central lessons of industrial organization is that the potential for entry disciplines market power.⁴⁰ Yet many of the more arresting interventionist conclusions of new-view trade analysis rest in some fashion on barriers to competitive entry. One example is the well-known potential for strategic trade policy to shift oligopolistic profits toward one's own firms -- incumbent firms to be exact. When new firms are allowed, the same policy merely causes excessive entry in pursuit of the policy-generated rents -- resource-wasting rent-seeking of the classic kind. Such entry in the face of scale economies may furthermore drive each individual firm "up" its average cost curve, thereby imposing a productivity penalty as well from the "inefficient entry."⁴¹ Another example is the well-known potential for

³⁹ Pomfret (1991) has an excellent new-view survey of trade policies as "facilitating practices," the term from industrial organization that describes practices that facilitate anti-competitive behavior.

⁴⁰ Even the mere potential for entry is sometimes enough, as the literature on contestable markets shows.

⁴¹ See Horstmann and Markusen (1986).

import protection to serve in some circumstances as a means of export promotion. It is not widely appreciated that the fundamental mechanism here is that trade policy serves as a barrier to foreign entry, and that when domestic entry is allowed, it is often inefficient, and wasteful rent-seeking dissipates the export-promoting advantage of the policy.

It is important to appreciate that the higher-profile interventionist results from new trade analysis subtly promote support of one's own incumbents and suppression of foreign entrants, thereby undermining the general understanding of how important entry is in general for markets to work well, for avoiding oligopolistic rigidity and turgidity, and for achieving workably competitive outcomes even with imperfect competition. New view analyses that make these counter-interventionist points are unfortunately lower in profile, but should not be. New view analysis without free entry almost invites the proliferation of entry barriers that would justify further policy activism on behalf of incumbents. This would be a devolutionary vortex of the classic rent-seeking, resource-wasting kind.

New-view analysis with free entry has a number of policy implications that need highlighting. One of the most important is the entry-facilitating value of minimal, transparent barriers to cross-border merger and acquisition, which is often a means by

which new entry takes place (or by which exit is avoided⁴²). Another is the pro-competitive value of wide access to the bureaucratic trade-policy process, which is otherwise weighted in favor of incumbent firms. For example, to promote access, antidumping and countervailing duty cases might be required to include economic impact evaluations that would calculate injury to domestic users from the remedy as well as injury to domestic producers from the offense.⁴³ Or for example, new firms (as well as consumers) might gain from a weakening of the "sovereign compulsion" doctrine that insulates incumbents from antitrust suits brought in opposition to voluntary restraint arrangements.

(4) A Cautious Analysis of "Externalities," With Emphasis on Their Scope and Appropriability. Comparative advantage in the new view is less deterministic and more influenced by policy than in the traditional view. Trade patterns among countries, for example, are "indeterminate" under economies of scale and imperfect competition. That is, for purposes of the political economy of strategic trade policy, there are many alternative geographical concentrations of production for scale intensive goods that each feature the same relative prices, global supplies, and global demands. Countries can inherit shares in a given alternative by historical accident or can stake claims to shares by policy aimed at "getting there" -- that is, reaching some preferred alternative -- "first".

⁴² The proposed co-ownership of McDonnell-Douglas' commercial division by Taiwan Aerospace and other Asian investors is a good example.

⁴³ This proposal has been made frequently by J. Michael Finger, most recently, for example, in Finger and Dhar (1991).

The controversial question is why one pattern of comparative advantage is better for a nation's standard of living than another.

The broadest answer is "externalities," and the new view has more things to say about them than is commonly acknowledged. Externalities are hard-to-appropriate spillovers from one economic activity to another, or linkages among them. "Hard-to-appropriate" means that it is hard to assign property rights to them, and thus hard to buy them or sell them.

One particularly provocative perspective that the new view casts on externalities can be summarized as follows:⁴⁴

- (a) Many spillovers and linkages are detectable, if not precisely measurable.
- (b) They are most accurately detected by information gathered efficiently by private sector agents such as stock analysts, commercial and investment bankers, and strategic planning groups of firms contemplating merger.
- (c) Therefore they are more and more "internalizable," and
- (d) ... less and less a valid grounds for government intervention aimed at capturing their benefits.

This perspective on externalities has been shaped by the new economics of information. Information, similar to technology, is a kind of product that can be

⁴⁴ Richardson (1990, p. 119-121) is a fuller account.

produced like others by devoting resources to it. Information describes and detects many things, including interdependent linkages. Banks, brokers, analysts, accounting firms, venture capitalists, shareholders, and potential joint-venture partners are all in the business of producing information for the market. The market for information works about as well as any other, and has been the beneficiary of impressive technological innovation in informatics and telecommunications. As a result, it is increasingly true that even subtle, complex products and services can be defined well enough, made appropriable enough by assigning property rights, and thereby made marketable. True externalities are increasingly the exception. They are the spillovers and linkages that cannot be appropriated, priced, and marketed. Thus, instances of government intervention justified by externalities will be exceptional, too. They will have to rely on the government's information being better than that of banks, brokers, analysts, accountants and so on. Otherwise the rule will be that there is very little that deters any firm from joint ventures with firms in sectors that are somehow vitally linked to it.

In an era of growing alliances and information, then, many more intersectoral spillovers are appropriable. They are not externalities and provide no suggestion of the need for policy. The distinctive role of a government as an identifier and corrector of growth and competitiveness externalities, and as a shaper of comparative advantage, is being filled by firms and banks that are able to do so very well for themselves.

From this perspective, there are hidden costs in government barriers to cross-

border mergers and to trade in services such as accounting, brokerage, investment banking, and underwriting. The hidden cost is the inefficiency introduced into information markets and the constriction of markets that would otherwise "work" to internalize spillovers and linkages among sectors.

The broader new view is not, however, dogmatic on the issues of externalities. The particular perspective described above is not yet a consensus. Detection of technological spillovers and linkages is incomplete; their appropriability, and therefore marketability, is only partial. Thus, Grossman and Helpman (1991), for example, include extensive theoretical treatment of the extreme in which spillovers are nationally containable, as well as the extreme in which they are diffused internationally. And Caballero and Lyons (1989, 1990, 1991 jointly with Bartelsman) find significant empirical evidence for intersectoral externalities, in both short and long runs, for both Europe and the United States.⁴⁵

(5) A Cautious Analysis of Political Economy, With Warnings About Regulatory Capture. The broader question underlying several new-view issues is how different the political economy of the new view is from the political economy of the old, and how different it may be from polity to polity.

⁴⁵ Their findings, however, do not deny that such externalities can be captured internally by firms that operate in many sectors.

Krueger (1990), a new-view skeptic, presents one provocative answer to the broader question: "not much," she says in essence. She appeals to the "regulatory capture" tradition in industrial organization,⁴⁶ in which political and economic pressures turn regulators increasingly toward viewing the industry being regulated as a "constituency" to be served. Her first step is a careful exposition of the parallels between postwar infant-industry arguments for developing-country protection -- now largely discredited because of wasteful and inequitable government failure -- and more recent "technological infant" arguments for industrial-country protection -- often accepted blithely as something governments can, should, MUST do. Krueger reminds her readers of how unlikely it would be for governments to fail so miserably in the first instance and succeed in the second. She discusses: the daunting information requirements that confront any government attempt to pick promising infants of any kind; the rent-seeking opportunities that often proliferate as a result; the informational advantages that industry has over government with inevitable incentives to mis-represent; the consequent inability to conduct any form of realistic cost-benefit evaluation (well accepted as a pre-condition for other government programs); and the inherent irreversibilities and time-consistency problems in all infant-industry protection -- that mere legislative promises of temporary-protection-until-the-industry-matures are often inconsistent with both government and industry incentives when the time actually comes to remove the protection.

Yet Krueger's is not the only possible answer to the broad question. Industrial

⁴⁶ See Stigler (1971) and Peltzman (1976).

activists often claim that Northern European corporatism and the East Asian culture of business-government cooperation are alternative and better models of political economy. If so, then Krueger's questions need to be answered directly. Was such success in spite of capture? Or was capture in fact helpful in some regards? If so, how were informational problems overcome, rent-seeking and misrepresentation minimized, and time inconsistency avoided? What were the sectoral failures, and why did they fail? The new view virtually invites new study of the political economy of industrial policy in Germany, Japan⁴⁷, Korea, Taiwan, and Singapore, compared to the same in selected English-speaking and developing countries.

(6) The Advantages of an International Agent for Competition Policies.

Reporting, monitoring, mediating, and rule-making in the matter of "fair" competition are important functions that every government carries out domestically. Often this is done with some degree of structural independence built between the competition authorities, politicians, and the industries subject to the rules, precisely to avoid the abuses of regulatory capture and "crony capitalism." At the international level, however, no competition authority exists, and the new view can be easily misconstrued to be a form of "crony capitalism" writ large, in which "my cronies are my country's firms." Properly construed, however, the new view points to the need for an international ordering of competition policies, with at least some harmonization, and possibly with an institutional

⁴⁷ See Yamamura and Yasuba (1987) and Inoguchi and Okimoto (1988) for beginnings.

structure possessing some degree of independence from industry and national politics, though of course chartered by national politicians. Such an institution could be like the GATT, for example, a General Agreement on Competition Policies. Or it could be a Code to the GATT, to be negotiated in a future multilateral round. In any event, the new view provides ample reason to contemplate this sort of institutional change.⁴⁸

The GATT is concerned principally with border policies, and has less to say about non-border policies. Among other things, the new view highlights the ability of a government to create the "moral equivalent" of a border policy by its choice of non-border policies. This is, of course, true in traditional perspectives as well, where a tariff or export subsidy, for example, could be replicated by a combination of production subsidy and consumption tax. But the importance of the point is greater in the new view, since the firms concerned with international market access are not atomistic, but have profiles, and since under some circumstances, permanent sectoral displacements can be achieved by temporary and/or pre-emptive policy decisions.

⁴⁸ See Brittan (1992) and Graham and Richardson (1991) for more discussion along these lines and Camps and Diebold (1986) for prescient anticipations of these concerns.

VI. PACIFIC POLICY IMPLICATIONS

For better and worse, Pacific countries have been centrally involved with practical experiments in new-view trade policy for many years. Pacific experimentation has included activist national initiatives, reactivist national responses, bilateral "grievance negotiations," and pragmatic bilateral cooperation.

Many Europeans and North Americans believe that Japan, Korea, Singapore, and Taiwan have been the most active practitioners of new-view trade policies. They fear that Thailand, Malaysia, and perhaps others will follow. Out of that perception have come questionable dependence on anti-dumping defenses and voluntary restraint arrangements, and also more constructive experimentation with special bilateral, sectoral, and "structural" negotiations over integrated trade and competition policies aimed at establishing new ground rules and "more level playing fields."

Australians and New Zealanders seem to share these beliefs and perceptions. Out of that has come a promising experiment in bilateral integration and harmonization of their respective trade and competition policies.

(1) **Activist National Initiatives and Reactivist National Responses.** It is not at all clear, according to some of the best recent treatments of Pacific Asian growth and

development, that strategic new-view trade policies have been really all that important. Both Noland (1990) and the Industry Commission of Australia (1990), for example, put much greater weight on a stable, predictable policy environment, on high rates of investment, saving, and education, on opportunities for inexpensive technological catch-up, and on a relatively even internal distribution of the gains from growth.⁴⁹

In fact if any consensus exists on Pacific Asian trade policies, it is that they have been on balance "outward oriented." The same cannot be said of European and American defenses against Pacific Asian competitiveness. Both antidumping barriers and recourse to voluntary restraint arrangements are "inward oriented" and facilitate oligopolistic distortion, extortion, and waste, as described in Part V above. Furthermore, their facilitation of competitive imperfections occurs world-wide, enabling exporter firms as well as importer rivals to fix prices and market shares. New-view analysts of every ideology find much to worry about in such trends.

But it is also true that whatever their trade posture "on balance," Pacific Asian countries have in some instances aggressively substituted or maintained non-border policies for border policies. Production subsidies and support, coupled with high taxes on luxury goods and inefficient distribution systems between consumer and producer have many of the same effects as import protection and export promotion. Barriers to

⁴⁹ The Industry Commission's research covers Japan, Korea, Taiwan, Hong Kong, and Singapore. Noland's research covers the last four plus Indonesia, Malaysia, the Philippines, and Thailand.

foreign direct investment, whether by takeover or greenfield means, insulate domestic incumbents from entry by foreign firms "behind" the effective border barriers. In addition to the obviously protectionist policies toward merger, acquisition, and establishment by foreign firms, such barriers to foreign direct investment include tightly regulated, closed financial-service markets and permissive policies toward domestic "recession cartels" among weak firms facing reduced business. New-view analysts worry about these trends, too.

Two recent experiments in Pacific area trade policies meet new-view concerns in novel and constructive ways. They also illustrate new-view integration of trade and industrial policy issues.

(2) The Structural Impediments Initiative (SII).⁵⁰ The Strategic Impediments negotiations between the United States and Japan arose out of the recurrent "grievance bilaterals" of the 1980s,⁵¹ all concerned with U.S. complaints about Japanese barriers to market access. These grievance bilaterals were first carried out sectorally under normal U.S. "Section 301"⁵² auspices, then under the multi-sector approach of the Market-Oriented Sector-Selective (MOSS) negotiations, and -- almost -- under the "pattern-of-

⁵⁰ Cooper (1991) and Noland (1991) are good sources.

⁵¹ Richardson (1992) contains a fuller account of what follows.

⁵² Section 301 in U.S. trade law allows the U.S. government to initiate negotiations with any trading partner over practices that create discriminatory, unjustifiable, or unreasonable barriers to U.S. goods and services, and ultimately to impose sanctions if the negotiations are unsuccessful.

unfair-trade-practices" approach that would have been associated with naming of Japan under U.S. "Super 301" procedures. Japan was named only narrowly, of course, because agreement was reached to experiment with the SII approach to the broad issues.

Among other things, SII negotiations touch on exclusive business practices, distribution, and pricing by Japanese firms, and on inadequate R&D, inadequate export promotion, and burdensome official export controls in the United States. Each country draws up a list of perceived "structural impediments" to market access in its counterpart, then negotiates reciprocated commitments to reduce impediments. The goals of the enterprise are faster growth, improved market access, reduced trade imbalance, and less perceived inequity between the two trading partners -- precisely the concerns of most new-view reasoning. SII borrowed from standard trade negotiations the strategic principles of horizontal bargaining over multiple issues, cross-issue trade-offs, (implicit) request/offer procedures, and (implicit) non-discrimination.

The jury is still out on whether SII commitments have been successfully implemented (the exercise is slated to continue for three years). But it is likely that the substance, if not the exact structure, of SII will appear again in relations between the United States and its Pacific trading partners.

If SII-flavor negotiations were to be seen as a desirable way to merge negotiations over trade policy, industrial policy, and technology policy, three big issues would need to

be resolved.

(a) What Scope? Would continued bilaterals along SII-lines be wise? ...all that was feasible? Would a broader multilateral approach be possible? A new GATT round?⁵³ An OECD-centered negotiation? A Pacific-area minilateral? Do Asian countries, Australia, and New Zealand need to worry about possible bilateral deals on competition policy and access between the United States and the EC that would be aimed at insulating them from Pacific-sourced market disruption?⁵⁴ How could smaller countries with uniquenesses and grievances of "less weight" be represented?

(b) What Role for the Legislatures? The U.S. Congress did not officially authorize SII negotiations, nor ratify the outcomes so far. It remains to be seen whether U.S. SII commitments can really be substantive or credible without Congressional backing and implementation, or whether Congress would have any interest at all in authorizing further exercises.

(c) What Fit, If Any, To National Styles of Political Economy? It is not at all clear that the priority given to commercial interests in SII-flavor negotiations matches the priorities, traditions, or desires of voters. Voters in the United States, in particular, still

⁵³ See Brittan (1992) and Feketekuty (1991).

⁵⁴ Early reports of the September 1991 agreement on competition policy cooperation between the United States and the EC included this as an implicit motivation for the agreement.

cling to populist suspicions of all "big" business, whether foreign or domestic. Americans, more than most, fear corporatist co-option of government.⁵⁵ On the other hand, Americans do seem to be wondering whether U.S. management as well as government couldn't learn a thing or two from Asian success stories.

(3) The Australia-New Zealand Closer Economic Relations (CER)

Agreement.⁵⁶ The CER Agreement has been in force since 1983, but was buttressed by new commitments as a result of a 1988 review, and is currently under review again. It is in many ways a comparable effort to the European Community's attempt to "complete" a single, internal market, only without the bureaucratic super-structure of the European Commission nor any designs on political or monetary union.

In addition to bilateral free trade in most services as well as goods, the CER commitments that illustrate new-view perspectives most directly are: the replacement of antidumping and other trade remedies with harmonized competition guidelines for fair business practice; the attempt to establish a common business law more generally, as well as common rules on standards and technical specifications; disciplines over non-border subsidies to industry; and cross-country standing for each nation's regulatory authority to investigate and enforce the new agreements.

⁵⁵ See Richardson (1987, pp. 104-107).

⁵⁶ Brooms (1990), Thomson (1989), and Thomson and Langman (1991) are good sources.

The jury is still out on how these CER commitments will be maintained through the deep macroeconomic downturn of the early 1990s. Assuming that they are maintained, the CER experience, like EC experience, may help to shape wider Pacific and global negotiations along these lines in the future. The key issues, however, are:

(a) How Special is the CER Experience? Australia and New Zealand began with many parallels -- language, history, legal and political systems. How much is transferable to the experience of other nations?

(b) How "Open" Could the CER Arrangements Be or Become? In particular, what sort of accession would be possible for other important trading partners, Pacific or otherwise? And what sort of evolution would be possible for the various rules of origin that govern the eligibility of goods, services, and establishments for provisions of the CER Agreement?

It is interesting to consider the parallels between CER features and issues and those that confront the North American Free Trade Agreement (NAFTA) currently being negotiated between Canada, Mexico, and the United States. In what areas, for example, could the CER ever become open to Indonesian accession in the way that the Canada-U.S. agreement became open to Mexico? Could the NAFTA and CER agreements ever come together across the Pacific, without further participation by Asian or Latin American Pacific countries?

"Big" questions such as these are worth asking, of course, but begin to depart from the practical, pragmatic attempt of the new view to integrate the perspectives of trade policy and competition policy because the global environment for trade and investment has forced it. A smaller and more rhetorical question is perhaps a useful way of summing up the contribution that new-view trade analysis makes: Isn't it significant that no important regional trade agreement today is concerned with border measures alone, and virtually all include provisions for "fair" industrial competition? That is what the new view is about.

REFERENCES

- Areeda, Phillip, (1992), "Antitrust Policy in the 1980s," in Feldstein (1992).
- Axelrod, Robert, (1983), The Evolution of Cooperation, New York: Basic.
- Baldwin, Robert E., ed., (1991a), Empirical Studies of Commercial Policy, Chicago: University of Chicago Press.
- — —, (1991b), "Are Economists' Traditional Trade Policy Views Still Valid?," National Bureau of Economic Research Working Paper No. 3793, July, forthcoming, Journal of Economic Literature.
- Bartelsman, Eric J.; Ricardo J. Caballero; and Richard K. Lyons, (1991), "Short and Long Run Externalities," NBER Working Paper No. 3810, Cambridge, Massachusetts, August.
- Barton, John H., (1990), "Toward an International Antitrust Code," monograph, July 1, Stanford University Law School.
- Bergsten, C. Fred and Graham, Edward M., (1991) "Global Corporations and National Governments: Are Changes Needed in the International Economic and Political Order in Light of the Globalization of Business?" manuscript, Institute for International Economics, Washington DC.
- Bhagwati, Jagdish, (1989), "Is Free Trade Passe After All?" Weltwirtschaftliches Archiv, Vol 125 (1), pp. 17-44; Reprinted in J. Bhagwati, Political Economy and International Economics, edited by Douglas Irwin, MIT Press, Cambridge, 1991, Chapter 1.
- Bonanno, Giacomo, and Brandolini, Dario, (1990), Industrial Structure in the New Industrial Economics, Clarendon Press, Oxford.
- Boner, Roger Alan and Reinald Krueger, (1991), The Basics of Antitrust Policy: A Review of Ten Nations and the European Communities, World Bank Technical Paper No. 160, November.
- Brander, James A., (1987), "Shaping Comparative Advantage: Trade Policy, Industrial Policy, and Economic Performance," with commentary by Paul A. Geroski, Laura Tyson, and John Whalley, and a summary report by Richard G. Lipsey, in Lipsey and Dobson (1987).
- Bresnahan, Timothy F. and Peter C. Reiss, (1991), "Entry and Competition in Concentrated Markets," Journal of Political Economy, 99 (), pp. 977-1009.

- Brittan, Sir Leon, (1992), "A Framework for International Competition," text of an address to the World Economic Forum, Davos, Switzerland, February 3.
- Brooms, John, (1990), "Recent Developments in Trans-Tasman Business Law," manuscript, 17th International Trade Law Conference, September 1-2.
- Brown, Drusilla K. and David M. Garman, (1990), "Human Resource Management and International Trade," Industrial Relations, 29 (Spring), pp. 189-213.
- Caballero, Ricardo J. and Richard K. Lyons, (1989), "The Role of Externalities in U.S. Manufacturing," Columbia University Department of Economics Discussion Paper No. 431, September.
- (1990), "Internal Versus External Economies in European Industry," European Economic Review, 34 (), pp. 805-830.
- Camps, Miriam and William Diebold, Jr., (1986), The New Multilateralism: Can the World Trading System Be Saved?, New York: Council on Foreign Relations.
- Carter, Colin A.; Alex F. McCalla; and Jerry A. Sharples, (1990), Imperfect Competition and Political Economy, Westview, Boulder, Colorado.
- Caves, Richard E, (1985), "International Trade and Industrial Organization: Problems, Solved and Unsolved", European Economic Review, 28:377-395.
- (1988), "Trade Exposure and Changing Structures of U.S. Manufacturing Industries," in A. Michael Spence and H.A. Hazard, eds., (1988), International Competitiveness, Ballinger, Cambridge, Mass.
- Caves, Richard and David Barton, (1990), Efficiency in U.S. Manufacturing Industries, The MIT Press, Cambridge, Massachusetts.
- Coate, Malcolm B. and Andrew N. Kleit (1990), "Exclusion, Collusion, and Confusion: The Limits of Raising Rivals Costs," Bureau of Economics, US Federal Trade Commission, Working Paper No. 179, October.
- Cohen, Stephen S. and John Zysman, (1987), Manufacturing Matters: The Myth of the Post-Industrial Economy, New York: Basic Books.
- Comanor, W.S.; K. George; A. Jacquemin; F. Jenny; E. Kantzenbach; J.A. Ordovery; and L. Waverman, (1990), Competition Policy in Europe and North America: Economic Issues and Institutions, Chur, Switzerland: Harwood Academic Publishers.
- Committee For Economic Development (1990), "Foreign Investment in the United States: What Does It Signal?", a statement by the Program Committee, Washington DC, September.

- Cooper, William H., (1991), "Japan-U.S. Trade: The Structural Impediments Initiative," Current Politics and Economics of Japan, 1 (), pp. 73-81.
- Corden, W. Max, (1990), "Strategic Trade Policy. How New? How Sensible?," World Bank Working Paper WPS 396, April.
- Davidow, Joel, (1991), "The Relationship Between Anti-Trust Laws and Trade Laws in the United States," The World Economy, 14 (March), pp. 37-52.
- Deardorff, Alan V., (1989), "Economic Perspectives on Antidumping Law," in John H. Jackson and Edwin A. Vermulst, eds., Antidumping Law and Practice: A Comparative Study, Ann Arbor: University of Michigan Press.
- , (1990), "Should Patent Protection Be Extended to All Developing Countries?," The World Economy, 13 (December), pp. 497-507.
- de Ghellinck, Elisabeth; P.A. Geroski; and A. Jacquemin, (1988), "Inter-Industry Variations in the Effect of Trade on Industry Performance", Journal of Industrial Economics, 37:1-19.
- Dick, Andrew R., (1990a), "The Competitive Consequences of Japan's Export Cartel Associations," manuscript.
- , (1991b), "Are Export Cartels Efficiency-Enhancing or Monopoly-Producing?," manuscript.
- Dickens, William, and Kevin Lang, (1988), "Why It Matters What We Trade," in Laura D'Andrea Tyson, William T. Dickens, and John Zysman, eds., The Dynamics of Trade and Employment, Cambridge, Mass.: Ballinger, pp. 87-112.
- Dixit, Avinash, (1984), "International Trade Policy for Oligopolistic Industries", Economic Journal, 94 (supplement), pp. 1-16.
- European Communities, Commission of, (1989), EEC Competition Policy in the Single Market, Luxembourg.
- , (1991), XXth Report on Competition Policy, Luxembourg.
- Feketekuty, Geza, (1991), "Changes in the World Economy and Implications for the World Trading System," manuscript.
- Feldstein, Martin, ed., (1992), Policy Change in the 1980s, Chicago: University of Chicago Press.
- Feltham, Ivan R.; Stuart A. Salen; Robert F. Mathieson; and Ronald Wonnacott, (1991), Competition (Antitrust) and Antidumping Laws in the Context of the Canada-U.S. Free Trade Agreement, Ottawa: Canadian Chamber of Commerce and the United States Chamber of Commerce, The

Committee on Canada-United States Relations.

- Finger, J. Michael and Sumana Dhar, (1991), "Do Rules Control Power? GATT Articles and Arrangements in the Uruguay Round," manuscript.
- Frischtak, Claudio; Ulrich Zachau; and Bitá Hadjimichael, (1989), Competition Policy for Industrializing Countries, Washington: The World Bank.
- Fung, K.C., (1991), "Characteristics of Japanese Industrial Groups and Their Potential Impact on U.S.-Japan Trade," in Baldwin (1991a).
- Geroski, Paul, (1987), "Comment" on Brander, in Lipsey and Dobson (1987).
- Globerman, Steven, (1988), "The Impacts of Trade Liberalization on Imperfectly Competitive Industries: A Review of Theory and Evidence", Economic Council of Canada Discussion Paper No. 341, January.
- Goldberg, Linda and Janusz Ordover, (1991), "Nontariff Barriers to Trade and Competition: Theory and Evidence," manuscript, May 28.
- Government of Canada, Bureau of Competition Policy, Consumer and Corporate Affairs Canada, (1991), "OECD Committee on Competition Law and Policy: Canadian Follow-up to March 25-26 Discussions on Policy Convergence and Linkages," manuscript, April 26.
- Graham, Edward M., and Ebert, Michael E., (1991), "Foreign Direct Investment and National Security: Fixing the Exon-Florio Process," manuscript, Washington, DC.
- Graham, Edward M. and J. David Richardson, (1991), "Global Competition Policies," manuscript, Institute for International Economics.
- Grossman, Gene M., (1990), "Promoting New Industrial Activities: A Survey of Recent Arguments and Evidence", OECD Economic Studies, 14 (Spring), pp. 87-125.
- Grossman, Gene M. and Elhanan Helpman, (1991), Innovation and Growth in the Global Economy, The MIT Press, Cambridge, Massachusetts.
- Grossman, Gene M. and J.D. Richardson, (1985), "Strategic U.S. Trade Policy: A Survey of Issues and Early Analysis", Princeton University Special Papers in International Economics, No. 15, April.
- Haberler, Gottfried, (1990), "Strategic Trade Policy and the New International Economics: A Critical Analysis," in Ronald W. Jones and Anne O. Krueger, eds., The Political Economy of International Trade, Oxford: Basil Blackwell.
- Harris, Richard G., (1989), "Trade and Industrial Policy for a 'Declining?' Industry: the case of the

U.S. Steel Industry," Queen's University Institute for Economic Research Discussion Paper #766.

Hazledine, Tim, (1988), "Industrial Organization Foundations of Trade Policy: Modeling the Case of Canada - U.S. Free Trade. Presented at the Fifteenth Annual Conference of the European Association for Research in Industrial Economics, August 31-September 2, forthcoming Australian Journal of Agricultural Economics.

- - - (1989), "Why the Free-trade Gain Numbers Differs So Much: Analysis of An Encompassing General Equilibrium Model," manuscript, Department of Agricultural Economics, University of British Columbia, May 17.

Helleiner, Gerald K., (1989), "Introduction" to Gerald K. Helleiner, ed., (1991), Trade Policy, Industrialization and Development: New Perspectives, New York: Oxford University Press.

Helpman, Elhanan, (1984), "Increasing Returns, Imperfect Markets, and Trade Theory," in Ronald W. Jones and Peter B. Kenen, eds., (1984), Handbook of International Economics, volume I, Amsterdam: North Holland.

- - - (1989a), "Monopolistic Competition in Trade Theory," Princeton University International Finance Section Special Paper No. 16.

- - - (1989b), "The Noncompetitive Theory of International Trade and Trade Policy," Proceedings of The World Bank Annual Conference on Development Economics 1989, supplement to the World Bank Economic Review and The World Bank Research Observer, pp. 193-216.

Helpman, Elhanan, and Paul R. Krugman, (1985), Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy, The MIT Press, Cambridge, Massachusetts.

- - - (1989), Trade Policy and Market Structure, The MIT Press, Cambridge.

Holmes, Peter, (1991), "Trade and Competition Policy: The Consumer Interest," London: National Consumer Council, Working Paper No. 5.

Horstmann, I. J. and James R. Markusen, (1986), "Up the Average Cost Curve: Inefficient Entry and the New Protectionism," Journal of International Economics, 20 (), pp. 115-129.

Hunter, Linda; James R. Markusen; and Thomas F. Rutherford, (1991), "Trade Liberalization in a Multinational-Dominated Industry: A Theoretical and Applied General Equilibrium Analysis," manuscript, June.

Ichikawa, Hiroya, (1990), "A Survey of Japan's Competition Policy and Related Problems," manuscript, October.

- Industry Commission, Australia, (1990), Strategic Trade Theory: The East Asian Experience, Information Paper, Canberra, November.
- Inoguchi, Takashi and Daniel Okimoto, eds., (1988), The Political Economy of Japan, vol. 2, The Changing International Context, Stanford: Stanford University Press.
- Irwin, Douglas, (1990), "Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade," manuscript, September, forthcoming, Journal of Political Economy.
- Jacquemin, Alexis, (1982), "Imperfect Market Structure and International Trade: Some Recent Research. Kyklos, 35:75-93.
- - - (1987), The New Industrial Organization: Market Forces and Strategic Behavior, The MIT Press, Cambridge, MA.
- Jorde, Thomas M. and David J. Teece, eds., (1992), Antitrust, Innovation, and Competitiveness, New York: Oxford University Press.
- Julius, Deanne, (1990), Global Companies and Public Policy: The Growing Challenge of Foreign Direct Investment, Chatham House Papers, The Royal Institute of International Affairs, Pinter Publishers, London.
- - -, (1991), "Foreign Direct Investment: The Neglected Twin of Trade," New York: Group of Thirty Report No. 31.
- Katz, Lawrence F. and Lawrence H. Summers, (1989), "Can Inter-Industry Wage Differentials Justify Strategic Trade Policy?," in Robert C. Feenstra, ed., (1989), Exchange Rate and Trade Policies for International Competitiveness, Chicago: University of Chicago Press.
- Kessides, Ioannis, (1984), "Industrial Organization and International Trade: Some Recent Developments," World Bank Country Policy Department, CP Discussion Paper No. 1984-32, June.
- Klepper, Gernot, (1990), "Entry Into The Market for Large Transport Aircraft," European Economic Review, 34 (June), pp.775-798.
- Kravis, Irving B., and Robert E. Lipsey (1989), "Technological Characteristics of Industries and the Competitiveness of the U.S. and its Multinational Firms," NBER Working Paper No. 2933, Cambridge, Massachusetts.
- Krishna, Kala and M. Thursby, (1990), "Trade Policy with Imperfect Competition: A Selective Survey", in Carter, McCalla, and Sharples (1990).
- Krueger, Anne O., (1990), "Theory and Practice of Commercial Policy: 1945-1990," National Bureau of

Economic Research Working Paper 3569, December.

Krugman, Paul R., (1985), "Increasing Returns and the Theory of International Trade", National Bureau of Economic Research Working Paper No. 1752, in Truman F. Bewley, ed., (1987), Advances in Economic Theory, Fifth World Congress, Cambridge: Cambridge University Press, and reprinted in Krugman (1991).

- - - (1986a), "Industrial Organization and International Trade, in Schmalensee and Willig (1988), and reprinted in Krugman (1991).

- - - (1986b), Strategic Trade Policy and the New International Economics, The MIT Press, Cambridge, Mass.

- - - (1987), "Is Free Trade Passe?" Journal of Economic Perspectives, 1, pp. 31-144.

- - - (1991), Rethinking International Trade, The MIT Press, Cambridge, Massachusetts.

Lawrence, Robert Z., (1991), "Do Keiretsu Reduce Japanese Imports", Brookings Papers on Economic Activity, 1:1991, Brookings Institution, Washington, DC.

Lexenomics, Inc., (1990), "The Relationship Between Competition Policy and Anti-Dumping Law: The Canadian Experience," manuscript, January.

Levinsohn, James, (1991), "Testing the Imports-As-Market-Discipline Hypothesis," manuscript July.

Levinson, Marc, (1988), "Is Strategic Trade Fair Trade?," Across The Board, (June), pp. 47-51.

Lipsey, Richard G. and Wendy Dobson, eds., (1987), Shaping Comparative Advantage, Policy Study no. 2. Toronto, C.D. Howe Institute.

Lipsey, Robert E. (1989), "The Internationalization of Production," NBER Working Paper No. 2923, Cambridge, MA.

- - - (1991), "Foreign Direct Investment in the U.S. and U.S. Trade", NBER Working Paper No. 3623, Cambridge, MA.

Lipsey, Robert E., and Irving B. Kravis, (1986), "The Competitiveness and Comparative Advantage of U.S. Multinationals, 1957-1983," Cambridge, MA, NBER Working Paper No. 2051, October.

Lyons, B. (1979), "International Trade, Industrial Pricing and Profitability: A Survey", Presented at the 6th Conference of EARIE, Paris, manuscript.

Markusen, James R., (1985), "Canadian Gains from Trade in the Presence of Scale Economies and Imperfect Competition". In Whalley with Hill (1985).

- Markusen, James R. and A.J. Venables, (1988), "Trade Policy with Increasing Returns and Imperfect Competition: Contradictory Results from Competing Assumptions". Journal of International Economics, 24:299-316.
- Maskus, Keith E. and Denise Eby Konan, (1991), "Trade-related Intellectual Property Rights: Issues and Exploratory Results," manuscript, October, presented at a University of Michigan Conference on "Analytical and Negotiating Issues in the Global Trading System.
- Matsushita, M., (1988), "Coordinating International Trade with Competition Policies," in E. Petersmann and M. Hilf, eds., The New GATT Round of Multilateral Trade Negotiations: 5 Studies in Transnational Law,
- Messerlin, Patrick, (1991a), "The EC Antidumping Enforcement: Procedures," manuscript, May.
- - -, (1991b), "The EC Antidumping Enforcement: Determinants, Impact and Cost," manuscript, May.
- Montagnon, Peter, (1990), European Competition Policy, Chatham House Papers, The Royal Institute of International Affairs, Pinter Publishers, London.
- Moore, Robert E., (1990), "A Test of Strategic Trade Policy in the Semiconductor Industry: The Impact of Japanese Policy on U.S. Firms," International Economic Journal, 4 (Spring), pp. 97-108.
- Morrison, Catherine J., (1989), "Markup Behavior in Durable and Nondurable Manufacturing: A Production Theory Approach", National Bureau of Economic Research Working Paper No. 2941, April.
- Nicoliades, Phedon (1991a), "The Competition Effects of Dumping," Journal of World Trade,
- - -, (1991b), "EC Anti-dumping Policy," Tokyo Club Papers, 4(1), pp. 127-149.
- Nivola, Pietro S. (199), "More Like Them? The Political Feasibility of Strategic Trade Policy," The Brookings Review, pp. 14-21.
- Noland, Marcus, (1990), Pacific Basin Developing Countries: Prospects for the Future, Washington: Institute for International Economics.
- - -, (1991), "SII at Nine Months: Notes on the Structural Impediments Initiative," manuscript.
- Norman, Victor D. (1988), "Trade Under Imperfect Competition-Theoretical Ambiguities and Empirical Irregularities". Presented at the European Economic Association Annual Meetings, Bologna, August.
- - -, (1989), "EFTA and the Internal European Market," Economic Policy, (October), pp.

- - -, (1990), "Assessing Trade and Welfare Effects of Trade Liberalization: A Comparison of Alternative Approaches to CGE Modelling With Imperfect Competition," European Economic Review, 34 (June), pp. 725-745.

Ordover, Janusz A., (1990), "Economic Foundations of Competition Policy," in Comanor et al. (1990).

Organization for Economic Cooperation and Development (1984a), Competition and Trade Policies, Committee of Experts on Restrictive Business Practices, Paris.

- - -, (1984b), Merger Policies and Recent Trends in Mergers, Paris.

- - -, (1984c), Competition and Trade Policies: Their Interaction, Paris.

- - -, (1984d), Competition Law Enforcement: International Cooperation in the Collection of Information, Paris.

- - -, (1985), Competition Policy and the Professions, Paris.

- - -, (1987a), Competition Policy and International Trade, Paris.

- - -, (1987b), Twenty Five Years of Antitrust Policy: Achievements and Challenges, Paris.

- - -, (1988a), Competition Policy in OECD Countries, 1986-87, Paris.

- - -, (1988b), International Mergers and Competition Policy, Paris.

- - -, (1989a), Competition Policy in OECD Countries, 1987-88, Paris.

- - -, (1989b), Predatory Pricing, Paris.

- - -, (1989c), Competition Policy and Intellectual Property Rights, Paris.

- - -, (1991a), Competition and Economic Development, Paris.

- - -, (1991b), Strategic Industries in a Global Economy: Policy Issues for the 1990s, Paris.

Ostry, Sylvia, (1990), Governments and Corporations in a Shrinking World, Council on Foreign Relations, New York.

Peltzman, Sam, (1976), "Toward a More General Theory of Regulation," Journal of Law and Economics, 19 (), pp. 211-240.

Petri, Peter A., (1992), "Market Structure, Comparative Advantage, and Japanese Trade Under the Strong Yen," in Paul Krugman, ed., Trade With Japan: Has the Door Opened Wider?, Chicago:

University of Chicago Press.

Pomfret, Richard, (1991), "International Trade Policy with Imperfect Competition," manuscript, March.

Rauch, James E., (1991), "Balanced and Unbalanced Growth," manuscript.

Ravenhill, John, (1992), "Managing Pacific Trade Relations: Economic Dynamism and Political Immobilism," this volume.

Richardson, J. David, (1987), "'Strategic' Trade Policy: Research and Practice in the United States," in Lipsey and Dobson (1987).

- - - (1989), "Empirical Estimates of Gains from Trade Liberalization Under Imperfect Competition: A Survey," OECD Economic Studies, 12 (Spring), pp. 7-51.

- - - (1990a), "International Trade, National Welfare, and the Workability of Competition: A Survey of Empirical Estimates," in Carter, McCalla, and Sharples (1990).

- - - (1990b), "The Political Economy of Strategic Trade Policy," International Organization, 44 (Winter), pp. 107-135.

- - -, (1992), "U.S. Trade Policy in the 1980s: Turns -- and Roads Not Taken," in Feldstein (1992).

Roberts, Mark J., (1989), "The Structure of Production in Colombian Manufacturing Industries." Manuscript, the World Bank, May 2.

Roberts, Mark J. and James R. Tybout, (1991), "Size Rationalization and Trade Exposure in Developing Countries," in Baldwin (1991a).

Rosenthal, Douglas E., (1990), "Competition Policy," in Gary C. Hufbauer, ed., Europe 1992: An American Perspective, Washington: The Brookings Institution.

Salinger, Mark A., (1984), "Tobin's q, Unionization, and the Concentration-Profits Relationship," Rand Journal of Economics, 15 (), pp. 159-170.

Schmalensee, Richard, and Robert Willig, eds., (1989), Handbook of Industrial Organization, 2 vols., Amsterdam, North-Holland.

Sheard, Paul, (1991), "The Economics of Japanese Corporate Organization and the 'Structural Impediments' Debate: A Critical Review," Japanese Economic Studies, 19 (Summer), pp. 29-78.

Stigler, George J., (1971), "The Theory of Economic Regulation," Bell Journal of Economics, 2 (), pp. 3-21.

- Thaler, Richard H., (1989), "Anomalies: Interindustry Wage Differentials," Journal of Economic Perspectives, 3 (Spring), pp. 181-94.
- Thomson, Graeme, (1989), "A Single Market for Goods and Services in the Antipodes," The World Economy, 12 (June), pp. 207-218.
- Thomson, Graeme and Christopher Langman, (1991), "The Removal of Trade Remedy Law in Trans-Tasman Commerce," Canada-United States Law Journal, 17 (1), pp. 203-207.
- Tirole, Jean, (1989), The Theory of Industrial Organization, The MIT Press, Cambridge, Massachusetts.
- Tybout, James, (1989), "Entry Exit, Competition and Productivity in the Chilean Industrial Sector". Appendix by Lili Liu, manuscript, The World Bank, May.
- Tyson, Laura D'Andrea, (1991), Who's Bashing Whom: Trade Conflicts in High-Technology Industries, manuscript, forthcoming Washington: Institute for International Economics.
- Venables, Anthony, (1990), "The Economic Integration of Oligopolistic Markets," European Economic Review, 34 (June), pp. 753-769.
- Viscusi, W. Kip; John M. Vernon; and Joseph E. Harrington, Jr., Economics of Regulation and Antitrust, Lexington, Massachusetts: D.C. Heath.
- Vousden, Neil, (1990), The Economics of Trade Protection, Cambridge: Cambridge University Press.
- Whalley, John with R. Hill, (1985), Canada-United States Free Trade, Toronto: University of Toronto Press. Volume 11 in the research program of the Royal Commission on the Economic Union and Development Prospects for Canada (the "Macdonald Commission").
- Willig, Robert (1983), "Competition - Related Trade Issues," manuscript prepared for OECD.
- Yamamura, Kozo and Yasukichi Yasuba, eds., (1987), The Political Economy of Japan, vol. 1, The Domestic Transformation, Stanford: Stanford University Press.

Table 1

Surveys of "New View" Trade Theory and Policy

<u>Survey</u>	<u>Distinctive Audience</u>	<u>Emphases</u>	<u>Other Distinctives</u>
Baldwin (1991b)	General economist, student (G)	Continuity of new view and traditional.	Illustrative general equilibrium setting of new view, using "Baldwin envelope".
Brown and Garman (1990)	Specialist economist (labor)	Labor-centered versions of new view.	Implications for international factor migration and investment in human capital.
Dixit (1984)	Specialist economist (IT, IO)	IO precursors of new view; Cournot algebra.	One of the earliest surveys.
Globerman (1988)	Specialist economist (IT, IO)	Partial equilibrium diagrammatic summary, empirical evidence surveyed.	Review of new-view precursors in the Canadian literature, Eastman-Stykolt. Case study of telecommunications subscriber equipment.
Goldberg and Ordoover (1991)	Specialist economist (IT, IO)	Non-tariff trade barriers and effects, especially voluntary export restraints (VERs) and cartels.	Survey of empirical research on effects of VERs in agriculture, autos, and textiles.

Table 1, cont.

<u>Survey</u>	<u>Distinctive Audience</u>	<u>Emphases</u>	<u>Other Distinctives</u>
Grossman (1990)	General economist	Welfare economics of sectoral policy in new view settings; infant-industry arguments for high-technology activities.	Cogent algebraic/graphical decomposition of new-view welfare effects. Brief surveys of empirical studies. Discusses implications of informational asymmetries.
Grossman and Richardson (1985)	General economist	Welfare economics of strategic profit-shifting trade policies.	Brief discussion of strategic government vs. government literature.
Helleiner (1989)	Specialist economist (development)	Comparison and contrast to traditional infant industry themes -- learning, scale, externalities; applicability to developing countries.	Case studies and empirical work on related themes in other chapters of the book.
Helpman (1984)	Specialist economist (IT)	Trade patterns and gains from trade (not trade policy) under scale economies.	Technical treatment of foundational distinctions: national/international scale economies; homogeneous/differentiated products; no/free entry; segmented/integrated markets.

Table 1, cont.

<u>Survey</u>	<u>Distinctive Audience</u>	<u>Emphases</u>	<u>Other Distinctives</u>
Helpman (1989a)	Specialist economist (IT)	Trade policy with monopolistic competition and endogenous growth.	Intra-industry trade; multinational corp.; North-South terms of trade.
Helpman (1989b)	Specialist economist (IT), policy community	Trade policy with oligopoly and with endogenous growth; consideration similar to Helpman and Krugman (1989).	Anticipatory survey of Grossman and Helpman (1991).
Helpman and Krugman (1985)	Specialist economist (IT)	Patterns of trade, welfare gains with scale economies and product differentiation.	Norm of integrated global economy; market contestability.
Helpman and Krugman (1989)	Specialist economist (IT), student (UG, G)	Partial equilibrium, traditional perspectives with monopoly; new-view strategic perspectives under various scenarios.	Empirical chapter. Could be textbook.
Krishna and Thursby (1990)	Specialist economist (IT)	Strategic profit shifting, effects of export restraints and other indirect policies.	Agricultural illustration.
Krugman (1986a)	Specialist economist (IT, IO)	Similar to Krugman (1985) and Helpman and Krugman (1989).	Special attention to free entry and import protection as export promotion.
Krugman (1986b)	General economist, policy community, political scientist.	Varied	Industrial activist school represented; highly readable.
Krugman (1987)	General economist	Strategic profit shifting, externalities.	

Table 1, cont.

<u>Survey</u>	<u>Distinctive Audience</u>	<u>Emphases</u>	<u>Other Distinctives</u>
Levinson (1988)	Policy community	Summary more than survey.	Brief, accessible.
Lipsey and Dobson (1987)	General economist, policy community	Evaluation of industrial activist school from new-view perspective.	Multiple discussants of highly readable overview by Brander; useful synthesis by Lipsey.
Markusen (1985)	General economist, student (G, UG)	Gains from trade with scale economies; impact of entry conditions.	Simple general-equilibrium diagrams. Canadian research and empirical evidence starting from Eastman-Stykolt.
Pomfret (1991)	Specialized academic (IT)	Welfare economics of trade policy.	Extensive references. Discussion of selected empirical studies. Similar sequence, treatment to Helpman and Krugman (1989).

Table 1, cont.

<u>Survey</u>	<u>Distinctive Audience</u>	<u>Emphases</u>	<u>Other Distinctives</u>
Richardson (1989)	General economist, student (UG, G)	Results of empirical studies of welfare, dislocation effects.	Bibliographic completeness. Algebraic, diagrammatic summary similar to Markusen (1985).
Richardson (1990a)	General economist	Same as (1989) plus survey of econometric work by industrial organization economists on margins, total factor productivity, and entry/exit.	
Richardson (1990b)	General economist, political scientist	Critical, comparative review of Cohen and Zysman (1987), Krugman (1986b) and Lipsey and Dobson (1987).	
Vousden (1990)	Student (G, UG)	Textbook, economics of protection under perfect, then imperfect competition.	Political economy chapter; economics of adjustment, preferences, piece-meal reform.

*General economist = professional economists without regard to field.

Specialist economist = international trade (IT) or industrial organization (ID) interest.

Political scientist = political scientists and academic specialists in international relations, political economy, etc.

Policy community = government officials, journalists and other commentators.

Student = graduate (G) or undergraduate (U).