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Volume Title: Trade and Protectionism, NBER-EASE Volume 2

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Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-38668-6

Volume URL: http://www.nber.org/books/ito_93-2

Conference Date: June 19-21, 1991

Publication Date: January 1993

Chapter Title: Introduction to "Trade and Protectionism: NBER-East Asia Seminar on Economics, Volume 2"

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Chapter URL: <http://www.nber.org/chapters/c8068>

Chapter pages in book: (p. 1 - 3)

Introduction

Takatoshi Ito and Anne O. Krueger

This volume contains the papers presented at the Second Annual East Asian Seminar on Economics, cosponsored by the National Bureau of Economic Research, the Korea Development Institute, and the Chung-Hua Institution for Economic Research, which was the conference host. The topic of the conference, held in Taipei, Taiwan, 19–21 June 1991, was “Trade and Protectionism,” with special reference to issues of importance to trading relations between North America and East Asia.

The crosscurrents in the world trading system are of concern throughout the world. Over the first three decades after the Second World War, the increasingly open, multilateral international trading system served the entire world economy well. Successive GATT rounds of trade negotiations, unilateral liberalizations of trade on the part of the European countries, and falling costs of transport and communications served increasingly to integrate the world economy. The rate of growth of world trade was almost double that of world GNP and as such contributed to the enormous worldwide economic growth of the period.

In the 1980s, there have been some portents that this trend toward liberalization may be reversing. On one hand, the Uruguay Round of trade negotiations under GATT did not reach a satisfactory outcome on the planned timetable, and protectionist pressures in some of the major industrialized countries appeared to be increasing. On the other hand, there appeared to be pressures for regional trading arrangements. Europe 1992 was the first and most prominent. However, in the late 1980s, the U.S.–Canada Free Trade Agreement began coming into force, and it was announced that the United States and

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Mexico would enter into a Free Trade Agreement. The specter of a Western Hemisphere trading bloc and a European trading bloc naturally alarmed those who believe in the importance of the multilateral trading system for the entire world economy.

These pressures are of particular concern to East Asian countries, both because trading relations with North America and Europe are important to their economies, and because the overall health of the world trading system is of vital importance to them. On the one hand, trade frictions over particular issues between the United States and East Asian countries have led to tensions. When these trade frictions are combined with the prospects of regional trading blocs, natural concerns arise in East Asia over future access to markets.

Because of the importance of trading relations to the East Asian economies, and because of the visibility of trade frictions with North America, it was natural to focus on various aspects of U.S.–East Asian trading relations, in the context of the global economy, at this year's conference. Research on the issues underlying trade frictions can make a significant contribution to narrowing areas of disagreement and to distinguishing protectionist rhetoric from reality.

The first two papers in this volume focus on the context in which East Asian trading relations with the United States take place. Richard N. Snape's paper focuses on the role of GATT, the importance of the open multilateral trading system, and the current threats to it. Anne O. Krueger's paper then provides an analysis of U.S. regional trading arrangements, with a focus on Mexico as a more important potential competitor with East Asian countries than is Canada. She concludes that, based on existing economic capacities, successful economic reforms and the opening up of the major Latin American countries should spur their growth sufficiently so that, over the intermediate-term future, East Asian countries may gain more trading opportunities from Latin American growth than they may lose through trade preferences. Krueger also points to the relatively small size of the Latin American economies contrasted with those in Europe and East Asia and concludes that the United States would incur significant losses were it to take actions that resulted in the United States being isolated in a Western Hemisphere trading bloc.

The second set of papers focuses on sensitive sectoral issues that have led to trade frictions. Kenneth Flamm analyzes semiconductor trade, and Masayoshi Honma and Joachim Zietz and Alberto Valdés focus on aspects of agricultural trade. Flamm emphasizes possible justifications of the "fair market price" determination in Japanese-American semiconductor trade. Both Honma's and Zietz and Valdés's papers show the rapid increase and high levels of agricultural protection in Japan, Korea, and Hong Kong and examine the political determinants of protection.

The third set of papers focuses on trade issues between East Asian countries and their trading partners. Gary R. Saxonhouse analyses U.S.-Japanese trade issues, while Chong-Hyun Nam examines the effect of U.S.-administered

protection on Korean exports, and Motoshige Itoh and Kaori Hatanaka consider the openness of the Japanese market to exports from other Asian countries.

Next, aspects of international economic relations among Asian countries are considered. Tran Van Tho analyzes foreign direct investment relations between Japan and other Asian countries, with emphasis on the technology component of the investment, while Shujiro Urata examines the relation between Japanese foreign direct investment and trade flows among Asian countries.

In most of the papers, attention is paid to the political factors affecting trade policies. As already mentioned, Zietz-Valdés and Honma analyze political factors determining the level of protection to agriculture. The final group of papers, however, focuses on the overall political-economic interaction in affecting levels of protection. Robert E. Baldwin and Douglas Nelson apply the interest-group model of protection to U.S.-Taiwan trade relations, while Tain-Jy Chen and Chi-ming Hou examine the political economy of Taiwan's structure of protection. Yoo Jung-ho provides an analysis of the structure of Korea's protection from 1978 to 1988. Ya-Hwei Yang examines the effectiveness of Taiwan's effort to support industrial development through credit subsidies, and Wontack Hong examines the effect of Korea's export-oriented trade strategy on income distribution in Korea.

As will be seen in the papers themselves and in the discussants' remarks, these papers only begin to address the questions that arise from consideration of protection and trade relations in North America and East Asia.

Acknowledgments are in order. Our greatest thanks go to the National Bureau of Economic Research, which provided support in the logistical arrangements for the conference, as well as to the Starr Foundation for financing for the North American participants. The Chung-Hua Institution was a cosponsor and local host of the conference. We are indebted to the many fine scholars at the Institution who participated in the conference, and especially to the late Chi-ming Hou, who coordinated all the arrangements and to whose memory this volume is dedicated. Although Dr. Hou was very ill at the time of the conference, his enthusiastic participation and support contributed enormously to the success of the conference. We also thank the Korea Development Institute, the third cosponsor, for sending excellent Korean economists to the conference. We gratefully acknowledge financial support from the NIRA (National Institute for Research Advancement) for sending the Japan-based economists to the conference. Finally, we are indebted to Gail McKinnis, who efficiently and conscientiously undertook the thankless tasks of chasing down missing papers, ensuring that all discussants' comments were in, and handling referees' reports as well as the many other chores that are essential parts of transforming conference papers into a worthwhile volume.