

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Empirical Studies of Strategic Trade Policy

Volume Author/Editor: Paul Krugman and Alasdair Smith, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-45460-6

Volume URL: <http://www.nber.org/books/krug94-1>

Conference Date: October 13-14, 1989

Publication Date: January 1994

Chapter Title: Front matter, Empirical Studies of Strategic Trade Policy

Chapter Author: Paul R. Krugman, Alasdair Smith

Chapter URL: <http://www.nber.org/chapters/c8672>

Chapter pages in book: (p. -14 - 0)



National  
Bureau of  
Economic  
Research

---



# Empirical Studies of Strategic Trade Policy

Edited by

**Paul Krugman and  
Alasdair Smith**

This Page Intentionally Left Blank

---

# Empirical Studies of Strategic Trade Policy



A National Bureau  
of Economic Research  
Project Report



Centre for  
Economic  
Policy  
Research

---

# Empirical Studies of Strategic Trade Policy

Edited by

Paul Krugman and  
Alasdair Smith



The University of Chicago Press

*Chicago and London*

---

PAUL KRUGMAN is a professor of economics at the Massachusetts Institute of Technology and a research associate of the National Bureau of Economic Research. ALASDAIR SMITH is professor of economics and dean of the School of European Studies at the University of Sussex and a research fellow in the international trade research program at the Centre for Economic Policy Research.

The University of Chicago Press, Chicago 60637  
The University of Chicago Press, Ltd., London  
© 1994 by the National Bureau of Economic Research  
All rights reserved. Published 1994  
Printed in the United States of America  
03 02 01 00 99 98 97 96            2 3 4 5  
ISBN: 0-226-45460-6 (cloth)

Library of Congress Cataloging-in-Publication Data

Empirical studies of strategic trade policy / edited by Paul Krugman and Alasdair Smith.

p.    cm.—(A National Bureau of Economic Research project report)

Includes bibliographical references and indexes.

1. Commercial policy—Case studies. 2. Industry and state—Case studies. 3. International trade—Case studies. I. Krugman, Paul R. II. Smith, Alasdair. III. Series.

HF1411.E47 1994

382'.3—dc20

93-38665

CIP

© The paper used in this publication meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1984.

---

## National Bureau of Economic Research

### Officers

George T. Conklin, Jr., <i>chairman</i>	Geoffrey Carliner, <i>executive director</i>
Paul W. McCracken, <i>vice-chairman</i>	Charles A. Walworth, <i>treasurer</i>
Martin Feldstein, <i>president and chief executive officer</i>	Sam Parker, <i>director of finance and administration</i>

### Directors at Large

John H. Biggs	Martin Feldstein	Peter G. Peterson
Andrew Brimmer	George Hatsopoulos	Douglas D. Purvis
Carl F. Christ	Lawrence R. Klein	Robert V. Roosa
George T. Conklin, Jr.	Franklin A. Lindsay	Richard N. Rosett
Don R. Conlan	Paul W. McCracken	Bert Seidman
Kathleen B. Cooper	Leo Melamed	Eli Shapiro
Jean A. Crockett	Robert T. Parry	Donald S. Wasserman
George C. Eads		

### Directors by University Appointment

Jagdish Bhagwati, <i>Columbia</i>	James L. Pierce, <i>California, Berkeley</i>
William C. Brainard, <i>Yale</i>	Andrew Postlewaite, <i>Pennsylvania</i>
Glen G. Cain, <i>Wisconsin</i>	Nathan Rosenberg, <i>Stanford</i>
Franklin Fisher, <i>Massachusetts Institute of Technology</i>	Harold T. Shapiro, <i>Princeton</i>
Saul H. Hymans, <i>Michigan</i>	Craig Swan, <i>Minnesota</i>
Marjorie B. McElroy, <i>Duke</i>	Michael Yoshino, <i>Harvard</i>
	Arnold Zellner, <i>Chicago</i>

### Directors by Appointment of Other Organizations

Marcel Boyer, <i>Canadian Economics Association</i>	Charles Lave, <i>American Economic Association</i>
Rueben C. Buse, <i>American Agricultural Economics Association</i>	Rudolph A. Oswald, <i>American Federation of Labor and Congress of Industrial Organizations</i>
Richard A. Easterlin, <i>Economic History Association</i>	Dean P. Phipers, <i>Committee for Economic Development</i>
Gail Fosler, <i>The Conference Board</i>	James F. Smith, <i>National Association of Business Economists</i>
A. Ronald Gallant, <i>American Statistical Association</i>	Charles A. Walworth, <i>American Institute of Certified Public Accountants</i>
Robert S. Hamada, <i>American Finance Association</i>	

### Directors Emeriti

Moses Abramovitz	Gottfried Haberler	George B. Roberts
Emilio G. Collado	Geoffrey H. Moore	William S. Vickrey
Thomas D. Flynn	James J. O'Leary	



---

## **Relation of the Directors to the Work and Publications of the National Bureau of Economic Research**

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

*(Resolution adopted October 25, 1926, as revised through September 30, 1974)*

---

## Centre for Economic Policy Research

The Centre for Economic Policy Research is a network of over 170 research fellows, based primarily in European universities. The centre coordinates its fellows' research activities and communicates their results to the public and private sectors. CEPR is an entrepreneur, developing research initiatives with the producers, consumers, and sponsors of research. Established in 1983, CEPR is now a European-wide economics research organization with uniquely wide-ranging scope and activities. CEPR is a registered educational charity. Grants from the Leverhulme Trust, the Esmée Fairbairn Charitable Trust, the Baring Foundation, the Bank of England, and Citibank provide institutional finance. The ESRC supports the centre's dissemination program and, with the Nuffield Foundation, its program of research workshops. None of these organizations gives prior review to the centre's publications nor necessarily endorses the views expressed therein. The centre is pluralist and nonpartisan, bringing economic research to bear on the analysis of medium- and long-run policy questions. CEPR research may include views on policy, but the executive committee of the centre does not give prior review to its publications and the centre takes no institutional policy positions. The opinions expressed in this book are those of the authors and not those of the Centre for Economic Policy Research.

### Executive Committee

*Chairman*

*Vice-Chairmen*

Giorgio Basevi

Honor Chapman

Sheila Drew Smith

Jacob A Frenkel

Sarah Hogg

Anthony Loehnis

Guillermo de la Dehesa

Adam Ridley

Otmar Issing

Mervyn King

Peter Middleton

Mario Sarcinelli

Alasdair Smith

### Officers

*Director*

*Deputy Director*

*Director of Finance and Research Administration*

Richard Portes

Stephen Yeo

Wendy Thompson

This Page Intentionally Left Blank

---

# Contents

	Preface	xi
	<b>Introduction</b>	1
	Paul Krugman	
1.	<b>The Nonoptimality of Optimal Trade Policies: The U.S. Automobile Industry Revisited, 1979–1985</b>	11
	Kala Krishna, Kathleen Hogan, and Phillip Swagel <i>Comment: Garth Saloner</i>	
2.	<b>Trade Policy under Imperfect Competition: A Numerical Assessment</b>	41
	Anthony J. Venables <i>Comment: David G. Tarr</i>	
3.	<b>Strategic Trade Policy in the European Car Market</b>	67
	Alasdair Smith <i>Comment: James Levinsohn</i>	
4.	<b>Deregulation of Scandinavian Airlines: A Case Study of the Oslo-Stockholm Route</b>	85
	Victor D. Norman and Siri P. Strandenes	
5.	<b>Industrial Policy in the Transport Aircraft Industry</b>	101
	Gernot Klepper <i>Comment: Heather A. Hazard</i>	

6.	<b>Trade and Industrial Policy for a “Declining” Industry: The Case of the U.S. Steel Industry</b> Richard G. Harris	131
7.	<b>Strategic Manpower Policy and International Trade</b> David Ulph and L. Alan Winters	157
8.	<b>Industrial Organization and Product Quality: Evidence from South Korean and Taiwanese Exports</b> Dani Rodrik	195
9.	<b>Import Surveillance as a Strategic Trade Policy</b> L. Alan Winters <i>Comment:</i> James E. Anderson	211
	Contributors	235
	Author Index	237
	Subject Index	241

---

# Preface

This volume includes nine papers that were prepared as part of a research program on Empirical Studies of Strategic Trade Policy by the Centre for Economic Policy Research and the National Bureau of Economic Research. The papers were prepared for a conference held at the National Bureau of Economic Research in Cambridge, Massachusetts, in the fall of 1989 (with the exception of one paper, which was presented at a Centre for Economic Policy Research workshop in the summer of 1988).

We wish to thank the Ford Foundation for financial support of both the NBER and CEPR sides of the program.

This volume contributes to continuing research on the practical significance of new approaches to the analysis of international trade.

*Paul Krugman and Alasdair Smith*

This Page Intentionally Left Blank