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SCENARIOS FOR THE WORLD TRADING SYSTEM AND THEIR IMPLICATIONS FOR DEVELOPING COUNTRIES

by

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RÉSUMÉ

Le système des échanges mondiaux au cours de la décennie 90 et ses implications pour les pays en développement est décrit ici sous la forme de quatre scénarios, respectivement : (i) une expansion du système basé sur les conventions du GATT ; (ii) la naissance de blocs d'échanges mondiaux et, selon cette hypothèse, la question n'est pas de savoir s'ils vont se créer (ce qui est certain) mais s'ils vont devenir des "blocs-constructeurs" favorisant un système mondial plus intégré ou des "blocs-obstacles" provoquant une désintégration du système ; (iii) le développement d'un système d'échanges contrôlés où le rôle des puissances politiques prendrait le pas sur les résultats et qui pourrait fonctionner hors des frictions existant entre le Japon et les États-Unis ou l'Europe ; et, (iv) un courant (allant au delà des compétences) du GATT accordant moins de poids aux problèmes internationaux et tendant vers un système d'harmonisation globale plus approfondi dans des secteurs tels que ceux de la concurrence, des normes, des pratiques réglementaires et des politiques et matière de technologie.

Savoir lequel de ces scénarios va prévaloir est d'une importance croissante pour les pays en développement, à la fois à cause des diverses conséquences en termes d'accès au marché et des différentes demandes mutuelles dont font l'objet les politiques des pays en développement. Quel que soit le scénario qui domine, les pays en développement qui cherchent à augmenter les échanges et à attirer les investissements vont rencontrer plus de difficultés pour ouvrir leurs économies et aligner leurs méthodes sur celles en vigueur dans les pays de l'OCDE. Dans chacun de ces scénarios, le traitement préférentiel destiné aux pays en développement risque d'en pâtir.

SUMMARY

Four scenarios for the global trading system in the 1990s are outlined and their implications for developing countries considered: (i) further development of a GATT-based trading regime; (ii) development of a world of trading blocs -- where the critical issue is not whether they will emerge (they will) but whether they become "building blocks" for a more integrated global system or "stumbling blocks" that cause the system to fragment; (iii) development of a system of managed trade, where political forces would dominate outcomes and which could evolve out of the friction between Japan and the United States or Europe; and (iv) movement beyond GATT and dealing with international problems "at the borders" toward a system of deeper global harmonisation in such areas as competition policy, standards, regulatory practices and technology policies.

The answer to the question of which of these scenarios will predominate is of growing importance for developing countries, both because of their different implications in terms of market access and the different reciprocal demands they place on developing country policies. Whichever scenario prevails, developing countries seeking to increase trade and attract investment will experience greater pressures to open their economies and align their practices more closely with those prevailing in OECD countries. In each of the scenarios, preferential treatment for developing countries is likely to be weakened.

PREFACE

The Development Centre has embarked on a major research project on Globalisation and Regionalisation as part of its 1990-1992 Work Programme. The Project aims to provide a better understanding of the forces (macroeconomic, microeconomic, political) that are working for, and against, the formation of regional economic groupings in Europe, the Western Hemisphere and Pacific Asia, and how those forces interact with the forces (essentially microeconomic) that are driving globalisation. The purpose is to assess their implications for the strategies and policies of various categories of developing countries.

This Paper focuses on the evolution of the global trading system and its implications for developing countries. Beyond the debt crisis of the 1980s, the pressures of economic globalisation are leading a large and growing number of developing countries to unilaterally slash trade barriers, often as part of broader market-based economic reforms. It is a sad fact that as developing countries liberalise and a growing number have become champions of GATT's current Uruguay Round of trade talks, those talks flounder and protectionist pressures continue to mount in the developed economies. In the absence of a successful conclusion to the Uruguay Round, the trend to regional trading blocs centred on the big industrial countries will continue to cause concern in developing countries as well.

In providing a comprehensive and forward-looking assessment of how current trends in both globalisation and regionalisation may affect the evolution of the global trading system, and how the alternative scenarios are likely to affect developing countries, this Paper -- written by one of the leading US trade economists -- constitutes an important contribution to the Centre's ongoing research on Globalisation and Regionalisation.

Louis Emmerij
President of the OECD Development Centre
September 1991

INTRODUCTION*

The world economy has become increasingly globalised. Declining transportation and communications costs, the international convergence of technological capabilities, particularly among developed countries, the spread of multinational companies with global reach have all made many countries fairly close locational substitutes. In such an environment, relatively small differences in institutional practices and shifts in relative competitiveness can have large effects on international trade and investment flows.

Globalisation has generated at least two quite different policy responses in the trading system. For those whose politics follow logically from underlying economic trends, the answer is to harmonize national differences; if economic trends are leading to integration, then so should institutions and laws. Of course, in a world of diverse institutional practices, achieving such harmonization can be extremely difficult. Traditionally, therefore, international trading rules have emphasized "shallow integration" i.e. the removal of border barriers and the elimination of policies which intentionally discriminate against foreign products and firms. Increasingly, however, there are calls for "deep integration" which seek to reconcile even those policies and practices which may inadvertently discriminate against outsiders[1]. This deeper integration, of course, implies a curtailment on national sovereignty.

The alternative response to increasing globalisation is to resist or channel market pressures to ensure "equitable results". This generally involves efforts to manage trade (through quotas) and investment (through local content provisions and performance requirements). The prime example at the global level is the extensive system of managed trade in textiles in the multifiber arrangement.

But harmonization or management at the global level is particularly cumbersome. As a result, many of the institutional responses to globalisation have taken place at a sub-global level. In the 1980s, some of these efforts have also aimed at harmonization, most notably the EC92 initiative and the MOSS (Market-opening sector specific) and SII (Structural Impediments Initiative) talks between the United States and Japan. In addition there has been an increase in free trade initiatives such as the US-Canada, US-Israel and Australia-New Zealand Closer Economic Relations Agreement.

On the other hand, there have also been new, sub-global initiatives aimed at managing trade: in particular, the "voluntary restraint arrangements" and orderly marketing agreements which have proliferated against Japanese and other Asian exporters, and the arrangements which seek quotas and regulate prices in semiconductor trade.

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These responses to globalisation suggest a matrix. As indicated in figure 1, one axis is distinguished by the mode of operation -- with "deep integration" or harmonization of domestic practices on the one hand to managed trade on the other, and the removal of border trade barriers and other explicitly discriminatory practices -- shallow integration -- occupying a middle ground. A second axis is defined by the scope of membership. With bilateral arrangements on the one hand and global arrangements on the other, with regional and plurilateral arrangements occupying a middle ground. A third dimension could be added (see figure 2) to the picture indicating the scope of the arrangement ranging from a single product or industry to all trade in goods and services.

From a systemic perspective, the sum total of global trading relations will be affected by developments in each of these cells, but the question to be explored here is the direction in which developments will predominate. In this paper I will emphasize developments in four of these cells to outline scenarios for the global trading system in the 1990s and consider their implications for developing countries. At this writing, the outlook for the Uruguay Round is cloudy. With such uncertainty about the future prospects for the Round, it is difficult, if not hazardous, to project how the world trading system is likely to evolve in the decade ahead. Undaunted, I discuss in this paper four major scenarios:

(1) further development of a GATT-based trading regime;
(2) development of a world of regional trading blocs;
(3) evolution toward managed trade system;
(4) development of a "GATT-plus" system of deeper economic integration.

In brief, I argue that a successful completion of the Uruguay Round is a necessary, but not sufficient condition for evolution toward the first scenario. If the current round succeeds it will represent considerable progress towards removing border barriers and some progress toward deeper integration. Nonetheless, I am sceptical that at least for some significant period of time the GATT can respond to the pressures of globalisation. The GATT's scope is simply too confined and its membership too diverse and there will be pressures to deal with integration through other fora and means.

Accordingly, at least in the near term -- a decade, if not longer -- increased regional integration is inevitable. The critical question, though, is whether the regional arrangements will become "building blocks" in a more integrated global system or "stumbling blocks" that cause the system to fragment. I emphasize the degree to which the current regional arrangements -- both EC92 and the North America Free Trade Area -- represent initiatives to enhance the role of market forces. They are radically different in purpose from the blocks formed in the 30s or earlier regional arrangements in Latin America. With the noteworthy exception of agriculture, the experience of the EC in general also leaves room for optimism: increased European integration was compatible with sustained progress in liberalizing extra-EC trade. Moreover, the extent to which each potential regional block continues to rely on extra-regional trade reinforces the conclusion about building blocks: none of the regions can afford to neglect their extra-regional trade links. I argue, therefore, that overall, the regional measures are unlikely to result in trade wars, but they could pose new challenges and introduce or spread more subtle forms of protection.

The third scenario -- increased management of trade through quotas and local content rules -- currently applies to global trade in sectors such as textiles and steel. Invariably, such arrangements grow out of the friction between the United States (or the EC) and Japan and have then diffused globally. Additional sectoral problems could increase the use of managed trade, perhaps leading to efforts to manage aggregate trade flows and balances. Continued trade friction between Japan and its developed country trading partners increases the likelihood of this scenario. Under these arrangements political forces will dominate outcomes.

The most ambitious direction for the world trading system is represented by the last scenario, or movement beyond the GATT toward deeper global harmonization: "GATT-plus" or perhaps "OECD-2000." Patterned perhaps on the EC 1992 program (excepting provisions for free labour migration) this would entail increased efforts to harmonize global rules and reconcile practices in areas such as competition policy, standards, regulatory practices and technology policies. For this scenario to come to pass, of course, both the initial membership of the negotiating group and its institutional setting must be resolved. It is conceivable that further development of "open" regional blocs could evolve into a GATT-plus arrangement. Alternatively, the industrialized countries might pursue such an option immediately with conditional MFN treatment accorded to developing countries seeking to join.

Which of these scenarios will predominate? The answer to this question has become increasingly important to the developing countries. The "demonstration" effect of the successful outward orientation of the East Asian economies has persuaded many developing countries that trade can indeed be an engine of growth. Debt problems have made the attraction of direct foreign investment a critically important source of new capital while programs adopted at the behest of organizations such as the World Bank and the IMF have made trade liberalization an essential component of adjustment. The success of such policies will depend critically not only on the domestic economic responses but also on a hospitable international environment.

The international environment is important for developing countries both because of the market access it provides and because of the reciprocal demands it makes on developing country policies. My analysis suggests that market access for developing countries will be different under different scenarios and countries will be affected differently. As will be discussed in greater detail below, regional location and commodity patterns of specialization play an important role in affecting access. In particular, one distinction is between those countries falling within a region, and those falling outside it. Another is between exporters of primary products and exporters of manufactured goods.

Developing country concerns relate also to the obligations countries have to meet to obtain that access. Indeed, the most important conclusion I have is reached is that **whichever of the scenarios for the world trading system prevails, the pressures on developing countries for increased global integration -- and the associated reductions in national sovereignty and control -- are likely to increase.** Regardless of the regime that will dominate, developing countries seeking to increase trade and attract investment will experience greater pressures to open their economies and to bring their practices more closely in line with those in developed countries. In each of the scenarios, preferential treatment for developing countries is likely to be weakened.

The GATT is evolving in the direction of increased participation by developing countries as full members. In particular the rights afforded by new codes are conditional on accepting increased obligations. Regional initiatives will increasingly include developing countries, individually or in groups, but participation will entail providing reciprocal access for developed country goods, services and investment, moving more closely toward developed country regulatory standards, and reducing government industrial policies. Managed trade arrangements could well be selective and more onerous on countries perceived as relatively closed or different. Again the pressures will be to conform to international norms. Finally, to participate in deep integration arrangements, developing countries will again be forced to submit to international norms.

These trends mark a major change. Over the years, developing countries have claimed and received exemptions from GATT rules. In regional arrangements and in GSP they were granted access -- albeit limited -- **but without reciprocal conditions.** In the Lome Convention -- between the EC and the ACP (Africa-Caribbean-Pacific) Countries in fact European exporters were no longer entitled to the preferential treatment they had enjoyed under Yaounde. Similarly in EC agreements with Maghreb and Mashreq Mediterranean Countries, the principle is non-reciprocity. The major challenge in the future will be reconciling these increased requirements of "deeper" integration with the use of infant-industry development strategies.

While microeconomic trends within and across national economies are driving the world toward deeper integration, macroeconomic developments -- especially as they affect trade balances of the world's major industrialized powers -- may have as much, if not more, impact on how the world trading system develops as any other trend or event (including the outcome of the current Uruguay round negotiations). This should not come as a surprise. It is no coincidence that the depression of the 1930s was associated with an outbreak of protectionism and that the trade liberalizations of the 1950s and 1960s occurred during a period of rapid world economic growth. Similarly, the rise of protectionism in the 1980s had its roots in the 1981-82 recession and the macroeconomic imbalances in the US that pushed the exchange value of the dollar up by more than 50 per cent and thereby severely damaged the trade performance of the US, which until that time had been a leading opponent of protection. In the 1990s, the major macroeconomic challenge will be to channel international savings to Eastern Europe and the developing countries without generating the protectionist pressures that built up when saving was channelled to the US in the 1980s.

SCENARIOS

More of GATT

The GATT has been instrumental in facilitating freer trade. Since the end of World War II, tariff rates around the world have plummeted. Among the major industrialized countries, weighted-average tariff levels have been lowered to below 5 per cent[2]. Tariff liberalization, in turn, has promoted trade and interdependence. World trade has expanded more rapidly than economic output, especially in the last two decades[3]. At the same time, by permitting countries to concentrate in the production of goods and services in which they have a comparative advantage, expansion of trade has facilitated growth: average world output grew nearly twice as fast between 1950 and 1986 (4.2 per cent) as it did over the 1870-1950 period (2.2 per cent)[4]. Despite these achievements, there is considerable dissatisfaction with the GATT.

Dispute settlement

One set of objections centres on the weak enforcement mechanism for trade concessions and agreements **already negotiated**. Disputes under the Agreement are decided by ad hoc multinational panels which have no enforcement power; instead, winning nations are entitled only to retaliate against losing countries if the latter refuse to abandon an unlawful practice. Although most GATT disputes nevertheless appear to be resolved in an amicable fashion[5], the widespread perception that the resolution mechanism is ineffective weakens political commitment to the Agreement within the member countries and to the process of multilateral trade liberalization it represents.

Coverage

A wider set of criticisms relate to practices **yet to be negotiated** that either are imperfectly covered by the current Agreement or ignored altogether. In particular, exemptions given agricultural products in both the EC and the US, for example, essentially render GATT irrelevant for global agricultural trade. Textiles trade is governed by a multi-country system of quotas under the Multifiber Arrangement, also not covered by the GATT[6]. The GATT has never covered trade in services, nor has it explicitly covered the protection of intellectual property -- both increasingly important areas of trade.

Grey area practices

Even among manufactured products explicitly covered by the GATT, nations increasingly have found ways to circumvent the Agreement, most significantly through the proliferation of VERs. Although technically GATT-legal because they are negotiated "voluntarily" between countries, VERs clearly violate the spirit of the GATT by permitting importing nations to threaten exporting countries either with formal quotas or other types of import restrictions if they do not "voluntarily" restrict their exports. Since 1974, VERs around the world have covered a wide range of products: steel, cars, motorcycles, colour televisions, nonrubber footwear, and citizens band radios. In 1986, such arrangements accounted for 17 per cent of industrialized countries' imports[7].

The GATT also has imperfectly disciplined other non-tariff barriers (NTBs) that distort trade, especially subsidies. This subject was addressed in the 1979 Tokyo Round in a separate Code, which appears to have halted the trend toward increasing subsidization among industrialized countries[8], but not the trend toward countervailing duty (CVD) complaints aimed at offsetting the effects of foreign export subsidies. In particular, CVD actions (as well as antidumping actions) increased significantly in the United States and the EC during the 1980s[9]. The rising use of unfair trade practice procedures by the US and the EC has prompted similar trends in other industrialized nations[10]. Many developing countries now believe that these investigations are biased against them and have thus become a new form of NTB.

The current Uruguay Round of trade negotiations, in principle, is addressing some of the current weaknesses of the GATT just identified. Its 15 working groups are divided into three broad subject matters: increased market access, including more open trade in agriculture, textiles and natural resources and removal or reduction of remaining tariff and non-tariff measures; extension of the GATT to new areas, principally trade in services, standards and enforcement of intellectual property rights, and trade-related investment requirements imposed by governments; and strengthening of GATT rules, especially those covering antidumping, subsidization, product standards, import licensing, "safeguards" (temporary import protection), and dispute settlement. In short, the Uruguay Round is covering a broad, ambitious agenda.

Even at this late date it is impossible to know how successful the Round will be[11]. Clearly, if the Round fails or, just as important is perceived to be a failure, evolution of the world trading system under a GATT-based regime will be unlikely. While in principle, the previous achievements of the GATT would be unaffected, with tariffs and trading rules remaining as they were prior to the round, in practice, failure would encourage the negative implications of numerous centrifugal trends operating on the current system. These will be discussed in some length below but they include:

First, an increased proliferation of grey area measures. In particular, developing country exports would be harassed by "voluntary" export restraints, orderly marketing arrangements, price undertakings, anti-dumping investigations and other discriminatory measures. Second, an increase in the aggressive pursuit of bilateral negotiations by the United States based on legislation such as Section 301 of the 1974 Trade Act and 'Super 301' of the Omnibus Trade and Competitiveness Act of 1988. These measures would be particularly focused on Japan, but in addition, as in the late 1980s, the threat of sanctions would be used to force developing countries to provide concessions. And third, the emergence of trading blocs which undermine MFN principles.

However, even if the Round is perceived to be successful -- that is, if major progress is made toward liberalization in many of the areas currently being negotiated, the GATT, as presently structured, will play a diminishing, albeit still important, role in governing economic relationships between countries.

The original conception of the GATT was based on the MFN removal of tariffs as the principle means of achieving free trade. But as the world economy has become globalised concerns have turned increasingly towards other inhibitions on trade.

The increased scope of the GATT is reflected in successive GATT rounds. The Kennedy Round held between 1963-67 concentrated on lowering tariffs -- the only achievement on non-tariff barriers was an ill-fated anti-dumping code that was later rejected by the US Congress. The Tokyo Round, negotiated between 1973 and 1979 however, reflected growing concerns about non tariff barriers and a series of codes on dumping, export subsidies, counterveiling duties, and government procurement were negotiated. In the Uruguay Round, GATT members are attempting to push integration even deeper, towards improvements in the rules for subsidies, procurement, dumping and safeguards and towards harmonized domestic rules on intellectual property, services and the treatment of foreign investment and for reductions in agricultural support programs a major element of which are domestic subsidies.

Nonetheless the GATT remains essentially based on the principle of "shallow integration" i.e. that international trade can be regulated primarily by dealing with problems as they appear at the border or where they involve explicit measures that discriminate against foreigners[12]. On this view, different national practices that **affect** trade should be tolerated, as long as actors operating within each economy are granted national treatment and not-discriminated against. In limited cases, the GATT allows nations to respond to the effects of different practices, but only when they create "injury"; thus, for example, subsidies can be countervailed when they cause "material injury". Similarly, sales at less than "fair value" require proof of injury for the assessment of anti-dumping duties.

Yet as GATT grows more successful in accomplishing shallow integration by removing border restrictions and tackling problems with countervailing duty and antidumping law, remaining differences in domestic institutions and laws that affect trade will loom increasingly important as irritants between countries. Consider services, where the Uruguay Round is expected to produce agreement on the right to establish a service in any country, the principle of "national treatment", prohibition of restrictions against cross-border offerings of services, and the right of each country to regulate the provision of services offered within its territory[13]. Even such an agreement still leaves tremendous room for differences in how services are established and regulated in various countries that can have significant impacts on the competitive positions of firms headquartered in these countries.

In the Uruguay Round, the goal is an overriding set of principles which will later be embodied in more concrete formulations for specific sectors, (e.g. banking, insurance, telecommunications etc). Thus rules to govern such trade, could in fact lie many years ahead, and in any case are likely to be sector-specific. The result will be continued friction in these areas with global integration proceeding at different rates in different sectors.

For example, despite the recent agreement among 12 industrialized countries on common capital standards for banks, substantial differences remain between these countries in the permissible scope of bank activities and the degree to which banks are protected by national "safety nets" (deposit insurance and access to emergency loans from central banks)[14]. These differences, however, are contributing to the growing strength of European, and to a lesser extent Japanese, banks relative to those headquartered in the United States. Similar differences in regulatory treatment affect the relative competitive positions -- both at home and abroad -- of other types of services firms, such as insurance companies telecommunications providers.

In short, as economic interdependence has grown, the problems associated with different national standards and regulations have become increasingly apparent and potentially irritating. The logical response to this trend is to negotiate "deep integration", whereby nations harmonize or reconcile these differences. The EC 1992 initiative, of course, provides the best illustration of international efforts at deep integration. Similarly, in a much more tentative fashion, the SII talks between the United States and Japan are directed at the same objective.

The critical question, which I discuss below in greater detail in connection with the fourth scenario, is whether deep integration issues in the future will be dealt with through the GATT, perhaps in the form perhaps of a "GATT-plus" agreement, or in one or more different bodies with different and almost certainly, less comprehensive membership than the current GATT. Given the high degree of national sensitivities countries are likely to have on domestic policy issues, a body such as GATT with more than 100 country members at very different stages of economic development is likely to be ill-suited to achieving agreement on a meaningful range of issues in any reasonable time period. For this reason, it is doubtful whether for at least for some significant period of time the current GATT will provide the forum for negotiating deep world economic integration. Instead, as I outline further in connection with next scenario, it is much more probable that deep integration will be accomplished at regional levels, or between developed countries first, before seriously being negotiated, let alone accomplished, at such a broad level as the GATT.

In sum, there has been growing dissatisfaction around the world with the GATT. While the GATT has been relatively effective in lowering tariff barriers, it has been less successful in settling disputes and applying its disciplines to trade in agriculture and services, to investment and intellectual property rights, and to domestic practices which can be discriminatory such as government procurement, subsidies and standards. Some of these items were on the agenda of the Uruguay Round, but even if the round ends successfully, the problems in these areas are unlikely to be resolved.

Developing countries and the GATT

What would a continuation of the GATT regime imply for developing countries[15]? If it operated according to the principles enshrined in its original Articles, and the pious statements contained in more recent declarations, the GATT system would provide a favourable environment for trade with developed countries, both for developing countries that followed liberal trade policies and for developing countries that did not.

The essence of the GATT is non-discrimination achieved through Most Favoured Nation (MFN) treatment. The strategy is to leverage the bargaining power of the strong into an open system for all. Overall, the developing countries have been beneficiaries of the liberalization of global markets in which the GATT has played a major role. In particular, the MFN provisions have lowered barriers to their goods in major markets, making possible several spectacular success stories based on export-led growth.

Moreover, over the years, developing countries have claimed and received exemptions from GATT rules. By invoking GATT article XII to safeguard their balance of payments or Article XVIII which allows promotion of infant industries, developing countries can for the most part, permanently escape GATT disciplines. Thus the typical developing country is able to follow whatever trade policies it chooses at home while benefiting from liberalization in developed countries. In principle, developing countries are given a free ride.

In 1971, the GATT permitted positive discrimination in favour of developing countries under the Generalized System of Preferences (GSP). In 1979, the Tokyo Round established the principle of "special and differential treatment" and, in 1986, the Punte Del Este declaration which launched the Uruguay Round stated, "Developed contracting parties shall therefore not seek, neither shall less developed countries be required to make, concessions that are inconsistent with the latter's development, financial and trade needs."

Over the years developing countries have in some cases actually obtained better than MFN treatment through GSP arrangements, and from both the EC and the US through regional schemes such as the Lome Convention and the Caribbean Basin Initiative. But these arrangements have been limited in scope. Indeed in several cases, developing countries have not received preferential treatment: (i) The GATT itself, explicitly enshrined negative discrimination against developing countries in the Multi-Fiber Arrangement. (ii) Article 24 of the GATT which allows customs unions and free trade areas, has been used mainly by developed countries -- among OECD countries only Japan is not part of a free trade area. (iii) In the codes of the Tokyo Round, the GATT shifted towards conditional MFN; only signatories to the Codes, rather than all GATT members, benefit from its rights. (iv) The full array of GATT rules have not been extended to sectors such as agriculture which are vital to many Developing countries. (v) Tariff reductions have tended to be much lower in specific categories that are important to developing countries (hence the inclusion of tropical products as a distinct area in the Uruguay Round). (vi) Indeed, the special treatment of developing countries has also meant much less progress in reducing developing country tariffs. The result has been less expansion in South-South trade particularly in regions in which many developing countries are to be found.

Success in the Uruguay Round could offer important opportunities for developing country exports, particularly in vital areas such as agriculture, tropical products and textiles. Indeed the importance of progress in agriculture to the developing countries has been reflected in the major role played by developing countries in the negotiations. The breakdown in the talks were attributable to the unwillingness of agricultural exporters, particularly from Latin America, to agree to concessions in other areas without compensation in agriculture. Success in reigning in agricultural support programs in the EC, the US and Japan could offer major benefits for developing country exporters, although it could also mean higher costs for some importers. Progress in unravelling the multifiber agreement would also bring major benefits, particularly to new entrants into textiles and apparel -- although here too some countries might lose rents. Improved disciplines on grey area activities and a better safeguards code would also be important.

At the same time, the Round is not expected to increase the preferential treatment of developing countries -- if anything it could be weakened, particularly in new areas, if the practice of providing conditional MFN treatment is applied. Moreover, in a successful Round developing countries will be obliged to agree to increased inhibitions on national sovereignty in intellectual property, services and trade related investment measures. They could also face tougher anti-circumvention measures and national rules of origin in the dumping area.

Conversely, developing countries would lose important opportunities if the Round failed. The potential benefits outlined above would be lost. These would be particularly serious in agriculture, in which the global nature of the problem makes regional solutions relatively ineffective. Canada and the United States, for example, could not make much progress in restraining agricultural subsidies in the context of the US-Canada Free Trade Agreement, because other major exporters were not in the talks.

Developing countries would also be adversely affected by the increased use of unilateral and bilateral pressures that would emanate particularly from the United States in the event of a GATT failure.

It is ironic that as developing countries have increasingly shifted toward more liberal trading regimes, the differential treatment accorded them by the GATT has actually become a hindrance rather than a benefit. A major motive behind liberalization has been the attraction of foreign capital. However, pledges to maintain open markets made at the GATT have not been particularly credible, in part because of the weakness of the disciplines imposed on developing countries. By contrast, as I discuss below, commitments in regional FTAs with developed countries are likely to be much more credible.

Regional Blocs

The spectre of global fragmentation is haunting the global trading system. The fear is that progress toward global integration over the past four decades will be reversed as the world economy splits up into three regional trading blocs, each centred on a major currency, each closed to outsiders. No one familiar with the history of the 1930s can forget what Charles Kindleberger has called the "disarticulation of the world economy" in which multilateral trade was virtually confined to currency blocks, international capital markets dried up, and the international adjustment mechanism failed to operate[16]. But concerns that this scenario could be repeated reflect a fundamental misreading of the evidence. The major regional initiatives currently underway could represent the building blocks of an integrated world economy rather than stumbling blocks which prevent its emergence. To be sure, there are risks that these initiatives could go astray. But many of the forces initiating these developments appear to be the very opposite of protectionism. They represent positive, integrative responses to the pressures exerted by globalisation. If accompanied by parallel progress at the GATT, regionalisation could aid in freeing world trade and investment and harmonizing national institutional practices.

Stumbling blocks?

Outsiders have fears about each of the regional initiatives currently underway[17].

EC92 is viewed with concern because of fears that (i) this initiative will divert more trade than it creates; (ii) as its membership grows, the EC will become increasingly preoccupied with internal concerns and thus neglect its external relations; and (iii) a more centralized European Community would be dominated by the preferences of its more protectionist members and erect new external barriers[18].

A second concern is that Japan will spearhead a Southeast Asian bloc, principally by moving its manufacturing industry off-shore. The favourite analogy is to the migration of geese: Japan is the head goose, with a V-formation of newly industrialized countries (NICs) of Southeast Asia and China following (or expected to follow) closely behind[19]. This formation is motivated by the Japanese desire to exploit cheaper Asian labour to produce for Japan and elsewhere. As Japanese investment rises in other Southeast Asian countries, so goes this argument, Japan will obtain control over these rapidly growing markets, erecting invisible barriers that will make it difficult for other countries to penetrate. And acting through MITI, Japan supposedly will try to manage international specialization in a manner which inhibits the free entry of firms and products from outside the region[20].

A third concern relates to US initiatives in the Western Hemisphere. One fear is that such an agreement could have substantial trade-diversion effects. A second is that, like the EC, the US would be diverted from global initiatives, which, given the major leadership role it has played in the postwar trading system, would be a major blow to liberalization.

Clearly, any turn inward by the EC or the US could have domino effects. A Fortress Europe would encourage non-European countries shut out of European markets to think about forming their own closed blocs among their neighbours. An Asian bloc run by Japan could topple the global trading system by increasing demands for managed trade. The result could be a trade war[21].

Moreover, corporate responses to these regional arrangements could enhance global fragmentation. The threat of protection will induce major corporations to adopt multi-regional strategies in which each region is served through local production facilities. Once foreign companies are located within a region, they are less vulnerable to trade barriers and thus less inclined to oppose them[22]. Paradoxically, therefore, this form of corporate globalisation could weaken, rather than strengthen trade liberalization.

In sum, the apparent movement toward blocs has generated concern among defenders of multilateralism. They fear that, at best, a proliferation of blocs will make future global liberalization more difficult, and at worst, lead to a new round of trade wars. This is the stumbling blocks version of regionalisation.

Building blocks?

But some of these concerns may be misplaced. Stronger regional integration need not be associated with higher external barriers. Indeed, as the GATT itself recognizes, such a trend could have positive effects on the rest of the world provided the emerging regional blocs are "open" to trade from outside.

Growth

One key benefit to the rest of the world comes from the impact of regional arrangements in stimulating growth and thus demand for extra-regional exports. These benefits could imply that a world moving towards regional arrangements could offer increased opportunities for trade. These growth effects stem from several sources. One is the income effect of the gains from trade. Secondly, such increased income induces increased investment. For example, Richard Baldwin estimates that the removal of trade and other internal barriers to trade and investment within Europe as part of EC92 will stimulate sufficient increases in investment to produce "dynamic" growth effects that will be greater than the "static" efficiency gains: up to a 10 per cent increase in total output, as compared to the 4.5 per cent figure (for static gains alone) estimated in the official Cecchini report prepared for the Commission[23]. Another positive source of growth stems from the beneficial macroeconomic effects of these regional initiatives. "Animal spirits" have a major impact on investment. The psychological impact of EC92 in shifting Europe from "Europessimism" to "Europhoria" should not be underestimated, nor should the impact of increased expected competition. European firms have been convinced that the post-92 Europe will be different. To prepare themselves they have been investing and merging. Their

behaviour is a striking contrast to their sluggish investment in the late 1970s and early 1980s. Regardless therefore of whether the final details of the internal market are actually completed, the changed competitive environment has already brought considerable growth benefits.

Similarly, the restoration of investor confidence is the key to economic recovery in Latin America. The credible integration of these economies with the USA. and Canada is a vital mechanism for restoring this confidence. The improved ability to attract foreign investment will permit these countries both to restore growth and to return to their natural positions as nations with trade deficits. This shift will in turn provide increased export opportunities for all their trading partners, not simply those within the region.

Another key reason for benefits to Europe's trading partners stems from the sectoral location of the main benefits of EC92. EC92 will probably make its most important contribution in introducing competition among firms in many of the sectors for goods and particularly for services which were formerly nontradeable. While growth in Europe's traded goods sectors could improve or worsen the rest of the world's terms of trade -- depending on whether it is biased toward imports or exports -- growth in the nontraded goods sector is unambiguously good for the rest of the world, because it results in increased demand for imports. If this is true, then EC92 should be beneficial for world trade[24].

External barriers

Open regional blocs could also promote and facilitate external liberalization, that is, trade with parties outside blocs. On the political front, regions might be more willing to agree to liberalization than individual countries. The postwar experience with the EC is heartening. Increased European integration after the Treaty of Rome was quite compatible with the lowering of Europe's external barriers. Gary Hufbauer, for example, has argued that the Kennedy Round of trade negotiations would not have occurred in the absence of the EC. "France and Italy, in particular, would have strongly resisted making any trade concessions in the 1960s, and Germany would not have made trade concessions in isolation from its continental partners"[25]. With the noteworthy exception of agriculture, therefore (an exception for which the EC was not solely to blame), increased regional integration among the original six members of the EC was associated with extensive participation in multilateral tariff reductions. Indeed the formation of the EEC was an important impulse for the Kennedy Round.

The European experience also demonstrates that excluded countries have stronger incentives to liberalize in a system with emerging regional arrangements. Instead of the fragmentation process some fear, an expansionary dynamic could occur. The prospects (indeed, the actuality) that major trading partners could move into arrangements from which they are excluded could well drive countries to join regional liberalization schemes. The EEC's formation, for example, set in motion a cumulative regional liberalization process in which the United Kingdom was initially induced to join EFTA and later the EC itself. For the numerous developing countries which once had close linkages to individual European nations through colonial ties, the EC provided a mechanism for extending these to Europe as a whole through the Special arrangements which the Community has with ACP, Mediterranean, and Maghreb countries. Similar pressures are now operating with EC92 in which the EFTA nations, East Europeans and others such as Turkey are clamouring for inclusion.

As was the case with the EC, the North American FTA also is not developing as an exclusive process. Indeed, as Mexico has moved into the FTA negotiations with the US it has simultaneously sought to counterbalance this growing dependence on its more powerful partners with new initiatives toward the Pacific, Central and South America. Mexico, is seeking, for example, to join the OECD, is negotiating another FTA with Venezuela and Chile, and has signed agreements to achieve freer trade with several Central American countries.

The United States has also not been able to confine its attention to Mexico. President Bush has invited other Western Hemisphere nations to sign FTAs with the US separately or as groups in his Enterprise for the America's Initiative. The pressures of being left out of a prosperous regional arrangement are inducing many countries to accept this invitation. But the dynamic effects are not confined to agreements with the United States. This US invitation to Latin America has also stimulated increased interest in regional initiatives throughout Latin America. For example, the five Andean Nations -- Bolivia, Columbia, Peru, Ecuador and Venezuela -- have signed an accord to lift all barriers to intra-regional trade by 1991, while Brazil, Argentina, Paraguay and Uruguay, have agreed to form the Mercosur common market by the end of 1995. It would be extremely difficult for a group of countries to negotiate with the United States with a high dispersion in their external tariffs. Countries seeking to negotiate as a group with the United States could be induced to agree first on common external rates. Since this process is taking place at a time of liberalization, these common tariffs toward all trading partners are likely to be lower than those currently protecting these economies. Again the benefits beyond the region should be evident.

It remains to be seen, moreover, if the US will be able to confine its free trade area initiatives to the Western Hemisphere (and Israel). There will be pressures on the US to extend its invitation to willing Asian and other economies. The result will be an open agreement which will then be readily linked in a global arrangement.

The Asian bloc allegedly emerging around Japan is the least likely to develop into a formal protectionist arrangement. Indeed the diversity of membership in terms of domestic policies, stages of development and power make Asia the least closely knit of the regions. The Asian region is also particularly dependent on extra-regional trade (see table 1). To be sure, Japan's influence in the East Asian area is likely to increase, but precisely because other Asian nations are reluctant to submit to an arrangement with a single dominant economy, progress toward a single regional arrangement centred solely on Japan is likely to be slow.

The importance of extra-bloc trade

Current trade patterns and trends suggest that extra-bloc trade is vital for each of the current or prospective regional arrangements. While each of the major players may benefit from regional arrangements none can afford to ignore its extra-regional relations. The US, Europe and Japan are all global rather than regional traders.

Tables 1 through 3 provide trade data for three major regions and Japan for selected years from 1973 through 1988. Each of the tables breaks down both the total dollar volume and percentage of exports sold from a specific region to other countries within the same region as well as to nations in other major regions around the world.

Taken together, the tables on trade illustrate the importance of extra-regional trade as a share of total trade. Over half of the Western Hemisphere's exports and two thirds of Asian exports are outside these regions. Only for Europe are extra-regional exports less than a third of trade. As reported in Tables 1b, 2b, and 3b, a similar picture emerges in considering only manufactured goods exports.

Tables 1a, 2a and 3a also suggest there have not been strong long-run trends towards increased reliance on intra-regional trade. While the share of intra-regional exports in total exports of each region has fluctuated, overall the shares in 1988 for each region were not much different from their levels in 1973. There is some evidence, however, of an increased regional concentration in intra-regional trade in manufactured goods in Western Europe and Asia.(See Tables 2b and 3b)

But the share of intra-regional trade in total trade is not the most relevant measure of dependence on extra-regional trade. The importance of extra-regional trade is more usefully measured by the ratio of total extra-regional trade -- exports plus imports -- to GNP. Table 4 reports these ratios for major trading regions. The table illustrates that measured as a share of GDP, extra-regional trade is actually more important to Europe than to North America. Nonetheless, extra-regional trade remains very significant to North America and to the United States in particular. Since goods are roughly 45 per cent of North American GNP, this implies that about 25 per cent of all American transactions in goods involve an extra-regional buyer or seller. Clearly, efforts to liberalize at the global level through the GATT remain of vital importance.

In sum, the importance of extra-regional trade to nations all over the world means that no region is in a position to sever, or even significantly curtail, its trade ties with the rest of the world by forming closed blocs. While nations have been known to take steps that were against their long term interests, it is clear that each region retains a major interest in the global system. The data thus confirm the importance of extra-regional trade for individual firms in the selling and buying of merchandise.

Motivation

The forces driving nations into regional arrangements are dramatically different from those that drove them into preferential trading blocs in the interwar period. The motive for completing the internal market is not to secure the European market for European producers by providing them preferential access, but instead to facilitate the free movement of goods services, labour and capital throughout the Community. EC92 reflects the recognition that as the European economies became increasingly integrated, it was necessary to move beyond simply removing border barriers to achieve a much deeper degree of integration. To be sure, there is the hope that a larger market will improve European efficiency, but enhanced competition is precisely the mechanism by which the gains from trade are achieved.

Moreover, deeper integration within Europe will facilitate trade with the rest of the world. A common set of standards, for example, makes it easier for **all** who wish to sell in Europe -- not just insiders. A tough set of rules which prevents governments from subsidizing domestic firms aids all their competitors, not only those located in the European Community. Once the larger European economies are committed to allow the free flow of resources within Europe, they will no longer be able to ensure each has a national champion in every industry, located within its territories. This undermining of the nationalist sentiments which drives much of the protectionism in the larger European countries will benefit outsiders. In addition, some of the mechanisms developed by the EC to deal with national diversity could serve as a model for further integration between the EC and its trading partners.

Similarly, the US-Canada free trade agreement was motivated by concerns beyond those relating simply to tariff barriers to merchandise trade. Canada in particular sought protection from the exercise of US trade laws relating to unfair trade. The United States was concerned about Canadian inhibitions on foreign investment. The agreement was wide ranging, therefore, and included liberalization in services and a bi-national dispute settlement mechanism which again could serve as a model in other integration arrangements. Moreover, there are plans to extend the agreement in the future to deal with disciplines on domestic subsidies. Once Canadian subsidies are disciplined, the benefits will accrue to all its trading partners.

Likewise, Mexico is not seeking an FTA with the United States to avoid liberalization with the rest of the world. On the contrary, since the mid-1980s, Mexico has engaged in an extensive unilateral reduction in external restrictions accompanied by internal liberalization[26]. Moreover, in most sectors, tariff barriers against Mexican products entering the US are relatively low. Instead, much of the appeal of an FTA is that it provides credibility and permanence to Mexico's liberalization measures. A second rationale is that an export-oriented Mexico requires secure access to its major trading partner. The FTA is thus an important complement to an outward oriented policy which is based on attracting foreign investment.

It is ironic that as developing countries have increasingly shifted toward more liberal trading regimes, the differential treatment accorded them by the GATT has actually become a hindrance rather than a benefit. A major motive behind liberalization has been the attraction of foreign capital. However, pledges to maintain open markets made at the GATT have not been particularly credible, in part because of the weakness of the disciplines imposed on developing countries. By contrast, commitments in regional FTAs with developed countries are likely to be much more credible. The GATT dispute settlement mechanism may be weak, but no one doubts the ability of the lawyers in Washington to enforce agreements.

The key point here is that once Mexico accepts obligations vis-a-vis the United States to permit foreign investment, to enforce intellectual property rights, to unwind its elaborate protectionist programs for automobiles and electronics, these changes will provide benefits for all its trading partners -- not just the United States. US involvement in particular would dramatically enhance the credibility of intra-Latin American regional liberalization arrangements by making the costs of violating the agreement for any individual Latin American country particularly high.

Again the context and motivation for these efforts in Latin America must be appreciated. Over the past three years, in addition to Mexico, Brazil, Argentina and Colombia have all significantly reduced tariff levels as well as the dispersion of tariff levels, while Chilean liberalization has been in place even longer. It is no surprise that the earlier Latin American regional initiatives were failures, since they were implemented in the context of import-substitution policies. The aim of governments with interventionist philosophies was to achieve scale economies in protected regional markets. But these protectionist motives precluded success. However, the current policies are different. They are being implemented by governments proclaiming market-oriented philosophies seeking domestic liberalization and the attraction of foreign capital to service global rather than domestic markets.

To be sure, if these measures are successful, they will increase competition for other nations seeking to attract foreign capital. Pressures will be felt by other countries to avoid being isolated by securing similar arrangements. But as long as the US and the EC offer such nations conditional access to their regional arrangements, this form of competition should be seen as beneficial and liberalizing.

This more optimistic version of regionalism needs to be qualified. While overt protectionist barriers are unlikely, each of the regional arrangements might well resort to more subtle protectionist measures, particularly if the Uruguay Round should fail.

In the case of the United States, these typically involve so-called voluntary restraint arrangements (VRAs) and harassment through the use of anti-dumping actions. However, with a Western Hemisphere FTA, Latin American nations would be less susceptible to such measures and in any case have more recourse through special dispute settlement institutions that will inevitably be part of an FTA agreement.

In the case of Europe, protection could be applied through the strict and less than transparent application of antidumping rules; increased application of safeguards measures; efforts to nurture European firms (through implicit subsidies, selective government procurement and consortia excluding non-European firms); and the promulgation of standards purportedly addressing environmental and safety concerns that have the effect (if not the purpose) of discriminating against extra-bloc trade.

In the case of Asia, protection might be applied through actions taken by Japanese companies, implicitly sanctioned by the Japanese government. It is a commonplace that foreign companies have found the Japanese market hard to crack, largely because of "hidden barriers" which inhibit them from making sales in Japan.

These concerns highlight the importance of disciplines on these practices at the global level through the GATT. In particular, the Uruguay Round contains measures to limit some of these practices. A successful round, which is in the interest of each of the regions, would enhance the prospects that protectionist responses be limited. Failure of the Uruguay Round, or just as important a **perception** of failure, would increase the chances of more closed blocs. In such an event, protectionist forces around the world may then gain sufficient ammunition not only to turn their countries toward managed trade (the third scenario -- to be discussed shortly), but to deflect any movement toward open blocs as a response into a closed bloc regime. While dramatic overt protectionist measures are unlikely, there are reasons for concerns about more subtle measures that might respond to particular industry pressures and could be accomplished through any number of less-than-transparent devices.

Implications for developing countries

Developing countries are not all affected in the same way by either the open or the closed versions of these regional scenarios. One important distinction is between those that join these groups and those that do not. For countries in Latin America and those with European associations participation entails trading off increased and more secure access to foreign markets in return for reductions in national economic sovereignty. Inevitably, particularly for developing countries, participation in a regional arrangement will require increased conformity to the rules and norms of developed country partners. Some are sceptical whether this trade-off will be worth it. They argue, for example, products from Mexico are still likely to be harassed by US fair trade rules, while on the other hand, Americans are likely to dominate the Mexican economy. Nonetheless, in principle this is a trade-off which will be particularly attractive for countries with the capacity to attract foreign investment, particularly in manufacturing. However, as the regions broaden their scope, the value of access is likely to erode. Spain and Portugal for example, will find increased competition from Eastern Europe as the European Economic Space is extended. Similarly Mexico will experience increased competition from the rest of Latin America in the North American market. For countries which currently enjoy special access to regions under schemes such as GSP, the Caribbean Basin Initiative and the Lome Convention, the value of these privileges are likely to erode as the regions broaden participation. For those outside the region, the value of special and differential treatment will be subject to even more erosion. And particularly if the regions become protectionist and already include some developing countries, the trade diversion could be significant. Under the more closed version, for example, particularly if the GATT round fails to deal with textiles, it would become extremely attractive for the US to implicitly or explicitly divert the Multifiber quotas it currently provides China to Mexico. The countries least affected by the direct impact of these developments would probably be those producing raw materials which are not currently typically subject to high levels of tariff protection. However, a trade war which had serious macroeconomic effects could indirectly harm such exporters.

In sum therefore, for developing countries who become members of blocs, considerable adjustment will be required. In particular, industries which have been protected will be forced to compete with those from developed country partners. And countries will be required to assume increased obligations in sectors such as services and in practices relating to industrial policies and intellectual property rights. Specialization along free trade lines will be encouraged. On the other hand, for those excluded, there are significant dangers of trade diversion, particularly from other developing country competitors who produce substitute products. This is particularly problematic for producers of manufactured goods and especially for those countries seeking to attract direct foreign investment.

Managed Trade

The third scenario for the future development of the world trading system -- more "managed trade" -- is favoured by some academics and politicians in the US who have grown increasingly frustrated with the apparent stubbornness of the bilateral US trade balances with a number of this country's trading partners, most importantly Japan. Managed trade proponents are of course not confined to the United States however. Proposals come in various forms, but all share the common feature of attempting to specify **outcomes** rather than **rules**.

The broadest managed trade proposal, or "macro trade management", would have countries set bilateral trade balances with others, ideally after negotiation but if that fails then unilaterally[27]. Less sweeping would be overall bilateral export targets (and their counterpart, import targets) for other countries[28]. Alternatively, trade could be "micro-managed", with targets set for individual products or industry sectors, such as the quantitative import restrictions (quotas or VERs) that now govern trade in automobiles, semiconductors, steel and textiles. In the past, many managed trade arrangements were the response to the adjustment problems of declining industries. Increasingly however, they reflect concerns about industries of the future. As developed economies have converged in technological capabilities, differences in government promotion of high-technology industries have become increasingly controversial. Some have used the insights of recent innovations in trade theory to argue that activity in these sectors yield extra-ordinary benefits to the economy in the form of rents, premium wages and spillovers[29]. Global competition, according to proponents of this view, is a zero sum game, in which nations which fail to adopt the correct strategic trade policies lose out to those that do. Since agreements over international rules for the conduct of such policies are unlikely, numerical targets should be set for trade in key sectors.

Whether or not the Uruguay Round is perceived to be successful, the world trading system in the future is likely to see more efforts at micro, or sectoral, management in particular, largely because this is the way many trade disputes have been resolved in the past. During the 1980s, for example, VERs governing both semiconductors and steel emanated from anti-dumping actions in the United States. With anti-dumping investigations becoming more prevalent, not only here but elsewhere around the world, VERs as settlement devices thus also become increasingly likely. As the last decade has shown, VERs are not only attractive to domestic interests, but exporting nations have also enjoyed the benefits of quota-like trade restrictions (which raise the prices they can charge for their products sold abroad).

The outcome of the Uruguay Round also may not have as much effect on the prospects for managed trade at the "macro" level -- targets for bilateral trade balances and/or import/export levels -- as some may believe. The key factor, in our view, will be whether current trade frictions between Japan and its trading partners subside or intensify.

As just noted, a major impetus for the managed trade alternative has been the deterioration of the bilateral US trade deficit with Japan and disputes over the openness of Japan to specific US products, especially those in the high-technology sectors (satellites and semiconductors). There have been some signs that the friction might be abating. The US trade deficit with Japan dropped from $57 billion in 1987 to about $41 billion in 1990. In addition, the two countries preliminarily agreed in April

1990 on various structural measures as part of the SII negotiations[30], while the United States has taken Japan off its "priority" list of country targets under the "Super 301" provisions.

But any number of developments could reintensify the US-Japan trade frictions. The SII initiative can easily prove to be a failure, as either one or both countries fail to implement the various steps under the agreement. Indeed, even if these steps are taken, trade frictions could resurface if, for macroeconomic reasons, the bilateral US trade deficit with Japan worsens (as preliminary data suggest it may in 1991). In either event, advocates of managed trade -- especially the macro version which argues for overall trade balance or export targets -- would then be able to argue with effectiveness that "playing with the rules has failed", managing trade outcomes is the only viable left for opening up the Japanese economy to US exports.

European trade relations are also marked by considerable friction which has frequently been resolved by efforts at managing trade through VRAs and minimum price commitments (as in semiconductors). EC officials have also voiced concerns about bilateral trade deficits between the EC and Japan, and indicated some desire to establish quantitative targets.

There should be little doubt, however, that a turn toward managed trade could very easily unravel the GATT by undermining its central principle of non-discrimination, or "most favoured nations" (MFN) treatment. For example, if the United States sets targets for its exports (overall or product-specific) to Japan, the EC is likely to demand similar treatment for its products; otherwise, Japan will be tempted simply to replace European imports with American products. And if the Europeans demand equal treatment, then developing nations will not soon be far behind. An equivalent race for special, discriminatory treatment would be unleashed by US restrictions against Japanese imports. In that event, Japan would be induced to ship more of its products to other countries, which would then be under increased political pressure to impose restrictions of their own against Japanese goods. In short, managing trade by macro targets -- whether export or import levels or overall trade balances -- would very likely lead to a breakdown of MFN treatment, and thus of the GATT itself.

The balkanization of trade, in turn, could easily spread to investment. As an alternative to quotas or tariffs to enforce macro trade targets, countries could make increasing use of "local content" requirements as preconditions for selling in their home markets. Such measures could seriously impede the globalisation of production, with especially severe impacts on developing nations that to date have enjoyed much success in producing components for multinational manufacturing firms.

Managed trade arrangements would actually have a perverse effect on the necessary adjustments that are required to deal with globalisation. In particular, managed trade would reinforce the use of administrative guidance in Japan, and help cartelize the relationships among firms in Japan and elsewhere.

Implications for developing countries

If managed trade is systemic and comprehensive smaller participants without political clout will be adversely affected. If it is selective and partial, however, opportunities for unconstrained smaller newcomers could actually improve. Comprehensive managed trade arrangements subject trade to political influences and are inherently discriminatory against newcomers since quotas are generally distributed on the basis of historical market share. Some more powerful and more developed countries may manage to secure their trade but many small developing countries would undoubtedly be hurt. However, where managed trade has been selective, it has provided opportunities to newcomers either directly to penetrate markets in which one country has been constrained, or to attract investment from the constrained country with a view to providing an export platform. Thus, for example, in the late 1950s, US imports from Hong Kong surged once Japanese textiles had been subject to a VRA. Similarly US imports of televisions from Taiwan and Korea -- typically by Japanese affiliated companies -- surged when TVs from Japan were subject to an orderly marketing agreement in the late 1970s. Nonetheless, restraints were later placed on TV's from these countries as well.

This does not mean, of course, that managed trade is not harmful to developing countries that are affected by it. The experience in textiles and footwear is illustrative. Two major conclusions emerge from studies of developing country experience under the Multifiber Arrangement. The first is that developing countries are hurt by the MFA. The MFA has recently been analyzed extensively in a new study[31].

In their editors' introduction Hamilton and Martin report on some major results[32]. According to Trela and Whalley gains for developing countries as a whole from the removal of the MFA would be $8 billion and almost all developing countries, including major exporters, would gain from the liberalization. Martin and Supachalasai point out that although the MFA yields higher prices in protected markets, these are offset by lower prices in the residual market. Erzan, Goto and Homes show that the MFA effectively restricts exports from developing countries as a group, and that the gains of the unconstrained exporters from trade diversion are relatively small. They also find that the over time quotas have become increasingly restrictive.

The second conclusion, though, is that despite these restrictions, considerable export growth has been possible. In their study of Korea, in the same volume, for example, Hamilton and Kim find that in spite of the binding MFA restrictions, from the early 1980s to mid 1986-87, the volume of Korean exports almost trebled and the value of exports grew even faster because of rapidly rising prices of exports to the US market[33]. They argue, "The case of Korea during the 1980s illustrates that it has been possible for a country to expand -- and expand rapidly -- in spite of increasingly binding MFA restrictions in major markets[34].

Studies of the experience in the footwear industry reach similar conclusions. VRA's reduced welfare in both importing and exporting countries despite the transfer of rents from importing to exporting countries[35]. But again, the NTBs in footwear do not appear to have prevented export growth. As Hamilton points out, they have been relatively porous and some have not been permanent -- in particular footwear[36].

If managed trade were to be applied at an aggregate level, it would probably also be applied selectively -- i.e., against countries such as Japan and perhaps other Asians that are perceived to be too different to play by normal trading rules. Frequently proponents of these approaches argue there is no reason to apply managed trade to economies with similar institutional practices[37]. To avoid being subjected to such arrangements, these countries will be subject to increased pressure to conform more closely to international norms, i.e., even under a managed trade system therefore, paradoxically, to avoid such an outcome, Asian countries will experience considerable pressure to harmonize or reconcile their institutional practices.

"Super-GATT"

Globalisation has induced major pressures toward deep integration that have been seen in efforts to broaden the scope of the GATT and to increase harmonization of practices at the regional level. The countries of the European Community recognized in the early 1980s that they had become too integrated to tolerate the differences in practices that prevailed among them. While border barriers had been removed, differences in standards, regulations, and taxes continued to inhibit the free flow of goods services labour and capital. It had become necessary to achieve a much deeper integration.

Similarly, there was a growing appreciation in the United States and Japan, manifested in the SII initiative, that different, non-border barrier practices had become a major barriers to the interaction of the two economies. But the logic of the EC92 argument does not stop at the borders of Europe; similarly the logic of the SII is not confined to the United States and Japan. The most logical, if not the most likely response to the pressures of globalisation is to take steps towards deep integration at a global level. Such harmonization measures will encompass broader issues than the GATT currently deals with, such as competition policy, technology policies and capital markets policies.

The final scenario, therefore, involves a "Super-GATT" liberalization among participating countries, which would be more revolutionary than any of the trade policy measures that have thus far been debated in the political arena. The principal argument for such an arrangement among like-minded countries, whether developed or developing, is that any progress toward liberalization made in the Uruguay Round will be about as much as one can reasonably expect from the nearly 100 highly diverse economies as those that now belong to the GATT. In addition, the internal and external barriers that remain will be even tougher to negotiate away in the future. Only those countries truly interested in further liberalization and harmonization of their economies will be able to participate.

An arrangement for deep integration clearly requires much more extensive political commitments than the more conventional GATT-type arrangement. Accordingly these arrangements could only be made on a selective basis. One approach might be sectoral rather than plurilateral. It may be easier to obtain agreement for common standards for capital requirements for banks than it is to obtain agreement on common safety standards for drugs. Another would begin with a small group of countries. Some industrialized countries in particular might join together with any like-minded advanced developing countries to begin negotiations for achieving a single, unified market for goods, services and capital by the year 2000. An arrangement Hufbauer has termed an OECD Free Trade and Investment Area (FTIA)[38]. The Organization of Economic Cooperation and Development (OECD) might be given the task of formulating measures to create such an integrated market, modelled most likely on the EC92 initiative.

The objection to an OECD arrangement is clearly that it would serve as a rich-country's club. On the other hand, developing countries, particularly for whom such arrangements would require extensive adjustments, would probably object to such arrangements. While the OECD members might form the core, therefore, it would seem reasonable that non-OECD members that were willing to accept the arrangements obligations be allowed to participate. Such an arrangement might be better termed "GATT-plus." Nonetheless participation in such arrangements would require considerable institutional reforms in developing countries.

To be sure, a GATT-plus arrangement also need not produce identical economic and regulatory systems in all participating countries. Indeed, some competition among regulatory regimes could be beneficial. The difficult task would be to determine those issues on which harmonization will be essential and those in which differences must be tolerated (while guaranteeing national treatment and mutual recognition of technical standards). Ideally, however, participating countries would agree to common procedures for handling unfair trade allegations and safeguards measures; to rules encouraging innovation; and provisions for non-discriminatory government procurement; and to a supra-national entity to supplement national antitrust policies.

Such an arrangement among a select group of countries would not be incompatible with other forms of (more shallow) integration with other trading partners. Indeed, after 1992, the European Community will have deep integration among its members, but could also participate in a free trade area with the EFTA countries, in a common European Space with Eastern European Countries, in a variety of associations with African developing countries and in the GATT as a whole.

Such a GATT-plus arrangement would have powerful effects on the global economy, as long as it is kept "open." Just as EC92 has led to a new optimism in Europe, which in turn is enhancing investment, a GATT-plus accord among all the world's leading economies would spread such beneficial affects more widely throughout the world economy. In doing so, it would provide an important stimulus to developing countries to join its ranks.

Ironically, the case for a super-GATT arrangement may be even stronger if the Uruguay Round is judged a failure. As already discussed, in that event the world trading system would be under powerful centrifugal pressures to break up. A coalition of the leading economic powers could thus act as a brake on the rush to managed trade or independent regional blocs. If successful, it could thus pave the way for a reinvigoration of the GATT itself, as non-participating nations come to see the benefits of joining other economies that see benefits in harmonization and liberalization.

Just as the Uruguay Round was prodded with sticks such as US unilateral actions under Super 301 so movement toward deep integration in the anti-trust area, could be prodded by US actions in other areas. Recently the US Justice Department has announced its intention to hold the subsidiaries of foreign firms located in the United States responsible for the anti-competitive actions of those firms in other countries. This extension of US sovereignty is likely to be seen by other nations as unwarranted. And it could provoke calls for a international accord on such actions.

Deep integration and developing countries

What would deep integration imply for developing countries? If the movement toward deep integration was confined to a rich man's club, it could prove detrimental to developing countries that were excluded. In particular, if such an arrangement made transactions within the club much easier than outside it, trade diversion could outweigh trade creation.

However, much would depend on the precise form of deep integration.

Harmonization of regulatory and environmental standards -- the "social dimension" -- could well raise production costs in some developed countries and thereby create new opportunities for countries where such regulations are more lenient. On the other hand, efficiency promoting harmonization might create new forms of competition.

If it were operated as an open arrangement however, a deep integration arrangement would be unlikely to provide access on a preferential basis; i.e. developing countries seeking to join would be obligated to meet the same conditions as other participants. Indeed, the essence of deep integration is precisely that major differences in institutional practices be reconciled. Thus movement toward this type of regime initiates strong pressures in developing countries to meet international norms.

As the discussion on US- Mexico free trade has indicated, demands could well be placed on developing countries to raise safety, occupational and environmental standards. In addition, developing countries could find themselves subject to increasing constraints on the use of infant industry protection, subsidies, and other forms of industrial policy. In both the regulatory and industrial policy areas, therefore, there are pressures that will undermine the provision of differentiated treatment.

MACROECONOMIC FORCES

One theme that runs through much of the previous discussion is that the outlook for the future world trading system depends on heavily on macroeconomic events. A prolonged recession, in particular, could easily poison the waters of further liberalization and thus induce a detour toward closed blocs and/or managed trade.

Somewhat ironically, the macroeconomic effects of German reunification could put pressures on the system. The irony arises because, at first blush, one would think that German reunification would encourage liberalization. A united Germany will for some time pay more attention to problems at home, diverting much of the former West German trade surplus inward and thereby taking some pressure off firms from other countries in world markets. The positive effects on other nations' trade balances should thus facilitate moves toward further liberalization and integration.

Reunification could lead to opposite forces, however, flowing from the higher German interest rates induced by the heavy demand for investment capital in East Germany. In addition, the Bundesbank is likely to adopt tight monetary policies to combat the inflationary potential of unification while German fiscal policy will shift towards ease as government spending increases to aid regions, firms and workers who are dislocated by the adjustment required. Together these forces lead to high German interest rates and a strong deutschemark, mirroring the mechanisms by which the fiscal-monetary mix in the early 1980s led to high interest rates in the US and a strong dollar.

While German growth should spill over to the rest of the world, a strong deutschemark could adversely affect the international competitiveness of the members of the European Monetary System (EMS) whose currencies are effectively tied to the deutschemark. Just as protectionist pressures were generated in some regions in the United States despite the broad economic expansion during the Reagan years, protectionist pressures could also develop from some European countries and thus bring about the "Fortress Europe" protectionist mentality that many analysts feared when the EC first proposed its 1992 initiative.

This dark scenario need not come to pass if the currencies within the EMS were realigned and/or if Europe registers strong economic growth. However, at this writing, there is strong resistance within Europe to currency revaluation and European economic growth has not been as buoyant since the Gulf War.

The global system could be subject to strains from a second source. The Ministry of Finance in Japan has been pointing to the high levels of real interest rates around the world and arguing that since the world requires savings to develop Eastern Europe and the developing world, Japan should run a larger current account surplus. Viewed from perspective of global capital markets this argument makes sense. However, from the standpoint of the trading system two important questions should be raised. First, would this larger Japanese surplus occur through increased Japanese exports or reduced Japanese imports? Japan has trade frictions which threaten the global system, in part because its imports of manufactured goods already represent much lower shares of consumption than those of other industrial countries. In recent years, the picture has changed as manufactured goods imports have increased rapidly. A reversal of this trend, could, however, strengthen the case of advocates of managed trade.

Second, would Japanese savings be "transferred" in the goods market, directly to Eastern Europe, through a larger Japanese trade surplus with these nations, or indirectly, with Japan running a larger trade surplus with the United States and then the United States running a larger surplus with Europe and the developing countries? Until the Kuwaiti invasion, exchange rate shifts (with major declines in the Yen relative to European currencies) appeared to be moving the goods transfer through the direct route. However, long-lived weakness of the Yen vis-à-vis the dollar could result in an indirect transfer which could jeopardize relations between the United States and Japan.

The best solution to the world saving problem, of course, would involve action by the United States rather than Japan: that is, reduction of the US fiscal deficit, which would lower world interest rates, and at the same time, help **reduce** existing trade friction and avoid new sources of friction.

CONCLUSION

In sum, much uncertainty surrounds the development of the trading system during the 1990s. For many reasons, the globalisation of the world economy has made shallow integration arrangements inadequate. Efforts will be made in movement towards deep integration. Some of this progress could take place through open regional blocs. Alternatively a GATT-plus arrangements could provide the setting. It appears likely, therefore, that the system will move toward a continuation of the GATT system combined with the more benign version of regional integration and some sub-global efforts at deeper integration.

This movement toward deeper integration, however, rests on two important assumptions: that the conclusion of the Uruguay Round will be perceived to be at least moderately successful and that macroeconomic events will not trigger protectionist counter-reactions. If either of these assumptions proves to be unwarranted, the trading system could easily turn toward managed trade and/or closed blocs.

It is striking, however, that under each of the likely scenarios, the freedom of developing countries to enjoy special and differential treatment is likely to be eroded. To participate in new arrangements for a wider GATT, regional integration schemes or deep integration arrangements, developing countries will inevitably have to conform increasingly to practices prevalent in developed countries. In particular, the ability to apply infant industry policies is likely to be significantly reduced.

Table 1a

WESTERN HEMISPHERE
TOTAL EXPORTS BY REGION OF DESTINATION

Billions of $ (percentage)

Region	1973	1980	1985	1988
WESTERN HEMISPHERE	61	189	222	269
	47.3%	46.7%	52.7%	48.1%
Japan and Southeast Asia	18	54	60	103
	14.0%	13.3%	14.3%	18.4%
Western Europe	35	105	85	119
	27.1%	25.9%	20.2%	21.3%
Other	15	57	54	68
(Africa, Middle East, South Asia)	11.6%	14.1%	12.8%	12.2%
TOTAL	129	405	421	559

Source: General Agreement on Tariffs and Trade, "International Trade 1988-89", volume II.
Figures for Southeast Asia from IMF, "Direction of Trade", various issues.

Notes: WESTERN HEMISPHERE is composed of the USA, Canada and all of Latin America.
SOUTHEAST ASIA is composed of Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, Indonesia and the Philippines.
WESTERN EUROPE is composed of the EC plus EFTA.

Table 1b

WESTERN HEMISPHERE
MANUFACTURED EXPORTS BY REGION OF DESTINATION

Billions of $ (percentage)

Region	1970	1975	1980	1985	1988
WESTERN HEMISPHERE	22	49	94	125	167
	51.1%	51.4%	47.3%	54.5%	50.5%
Japan and Asia (ex. Mid. East)	4	10	27	31	56
	10.3%	10.1%	13.6%	13.6%	16.9%
Western Europe	11	20	46	43	73
	26.4%	20.6%	23.0%	18.7%	22.2%
Other	5	17	32	30	34
(Africa, Middle East)	12.1%	17.9%	16.1%	13.2%	10.3%
TOTAL	42	96	199	229	330

Source: United Nations Statistical Yearbook, various issues.

Table 2a

JAPAN AND SOUTHEAST ASIA
TOTAL EXPORTS BY REGION OF DESTINATION

Billions of $ (percentage)

Region	1973	1980	1985	1988
JAPAN AND SOUTHEAST ASIA	19	64	85	160
	30.5%	27.4%	25.8%	28.8%
Western Hemisphere	20	76	134	197
	31.7%	32.5%	40.6%	35.4%
Western Europe	11	45	48	109
	17.5%	19.2%	14.5%	19.6%
Other	13	49	63	91
(Africa, Middle East, South Asia)	20.3%	20.9%	19.1%	16.3%
TOTAL	63	234	330	557

Source: General Agreement on Tariffs and Trade, "International Trade 1988-89", volume II.
Figures for Southeast Asia from IMF, "Direction of Trade", various issues.

Note: WESTERN HEMISPHERE is composed of the USA, Canada and all of Latin America.
SOUTHEAST ASIA is comosed of Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, Indonesia and the Philippines.
WESTERN EUROPE is composed of the EC plus EFTA.

Table 2b

JAPAN AND ASIA
MANUFACTURED EXPORTS BY REGION OF DESTINATION

Billions of $ (percentage)

Region	1970	1975	1980	1985	1988
JAPAN AND ASIA	6	18	49	60	133
	23.9%	23.6%	24.4%	20.8%	26.8%
Western Hemisphere	10	23	66	126	191
	40.3%	31.2%	33.0%	43.9%	38.3%
Western Europe	3	12	37	41	101
	13.9%	15.8%	18.3%	14.4%	20.2%
Other	5	22	48	60	73
(Africa, Middle East)	21.9%	29.4%	24.2%	20.9%	14.8%
TOTAL	25	75	200	287	498

Source: United Nations Statistical Yearbook, various issues.

Table 3a

WESTERN EUROPE
TOTAL EXPORTS BY REGION OF DESTINATION

Billions of $ (percentage)

Region	1973	1980	1985	1988
WESTERN EUROPE	178 68.5%	551 67.5%	508 65.2%	904 71.3%
Western Hemisphere	31 11.9%	75 9.2%	101 13.0%	137 10.8%
Japan and Southeast Asia	10 3.7%	30 3.7%	34 4.4%	69 5.4%
Other (Africa, Middle East, South Asia)	42 16.0%	160 19.6%	136 17.5%	158 12.5%
TOTAL	260	816	779	1268

Source: General Agreement on Tariffs and Trade, "International Trade 1988-89", volume II.
Figures for Southeast Asia from IMF, "Direction of Trade", various issues.

Note: WESTERN HEMISPHERE is composed of the USA, Canada and all of Latin America.
SOUTHEAST ASIA is comosed of Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, Indonesia and the Philippines.
WESTERN EUROPE is composed of the EC plus EFTA.

Table 3b

WESTERN EUROPE
MANUFACTURED EXPORTS BY REGION OF DESTINATION

Billions of $ (percentage)

Region	1970	1975	1980	1985	1988
WESTERN EUROPE	65 60.8%	159 57.4%	376 63.3%	333 60.1%	693 68.8%
Western Hemisphere	15 14.3%	32 11.4%	61 10.2%	81 14.6%	118 11.7%
Japan and Asia	4 4.2%	12 3.8%	26 4.4%	30 5.4%	62 6.1%
Other (Africa, Middle East)	22 20.7%	76 27.3%	132 22.2%	110 19.9%	135 13.4%
TOTAL	106	277	594	553	1008

Source: United Nations Statistical Yearbook, various issues.

Table 4

EXTRA-REGIONAL TRADE AS PERCENTAGE OF GDP IN 1987

All figures in billions of $

Region	GDP	Total trade	Extra regional trade	As % of total trade	As % of GDP
North America	4 910	815	560	68.7	11.4
Western Hemisphere	5 675	1 025	665	64.9	11.7
Japan and Southeast Asia (1)	2 910	960	635	66.1	21.8
Western Europe	4 925	2 245	640	28.5	13.0

Source: GDP figures from "GATT International Trade, 1988-89" for the Western Hemisphere and Europe. GDP figures for Japan and Southeast Asia from IMF, IFS Annual 1989.
Total trade from "GATT International Trade, 1987-88" for Western Hemisphere and Europe. Total trade for Asia from IFS, DOT annual 1989.

Notes: See Table 1 for country groupings.
Total trade equals exports plus imports.

(1) Japan and Southeast Asia figures for 1988.

Figure 1

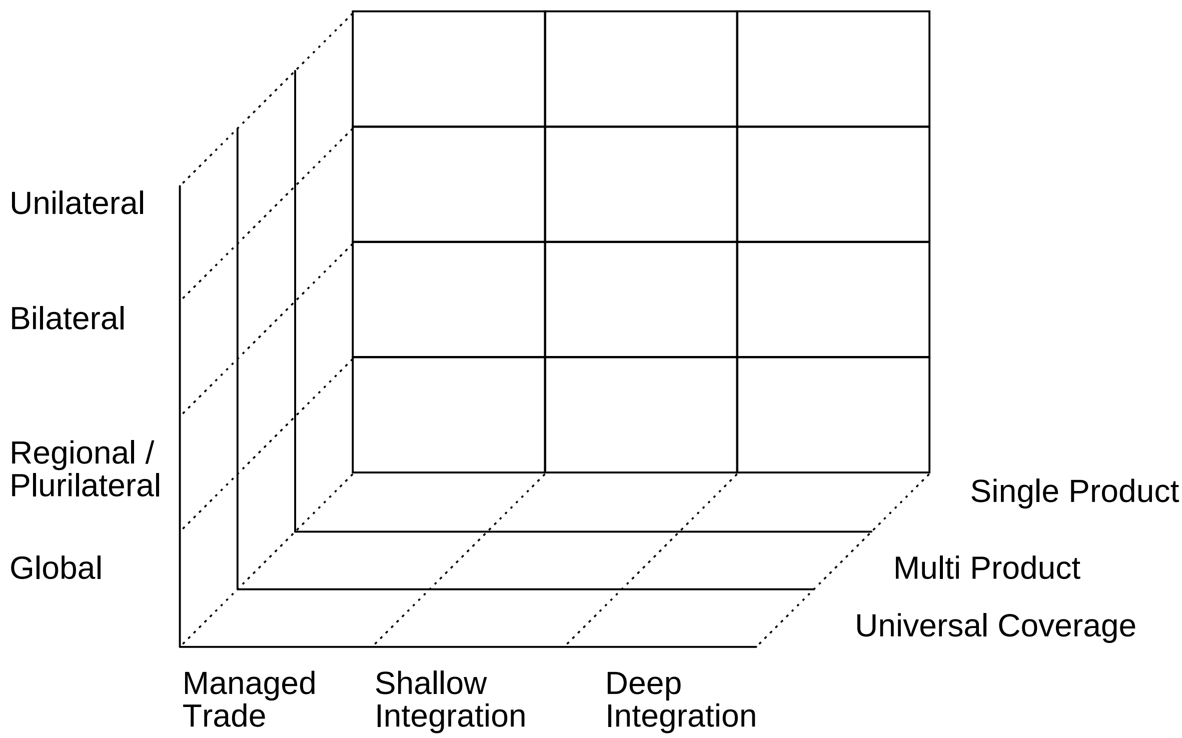
Trade Policy Matrix

Participation			
Unilateral	Quantitative Restrictions	CVd's 1980's Chile	Super 301
Bilateral	US - Japan Semiconductor Arrangement	FTA's	US - Japan SII
Regional / Plurilateral	COMECON	FTA's	EC 92
global	MFA	GATT	OECD 2000?
	Managed trade	Shallow Integration	Deep Integration

Policy Mechanism

Figure 2

Trade Policy Matrix



Policy Mechanism

NOTES AND REFERENCES

1. The measures for EC92 and the structural impediments initiative between Japan and the United States are examples where the goal is deeper integration.

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3. Robert E. Litan and Peter O. Suchman, "US Trade Policy at a Crossroad," *Science,* January 5, 1990, p. 33.

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5. Of the 75 disputes brought before the GATT through September 1985, 88% were settled or dropped by the complaining country. See US International Trade Commission, *Review of the Effectiveness of Trade Dispute Settlement Under the GATT and Tokyo Round Agreements* (Publication 1793, US ITC, Washington, D.C. 1985).

6. For a detailed history of these arrangements, see William Cline, *The Future of World Trade in Textiles* (Institute for International Economics, Washington, D.C., 1987).

7. The World Bank, *World Development Report 1987*, p. 140.

8. *Economic Report of the President 1989*, p. 162.

9. *Ibid.*, p. 164; see also J. Michael Finger, "Antidumping and Subsidy Measures," in J. Michael Finger and Andrzej Olechowski, eds., *The Uruguay Round: A Handbook on the Multilateral Trade Negotiations* (World Bank, 1987), pp. 153-61.

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12. This would also be true of a restructured GATT system as envisaged by Jackson. See John H, Jackson, *Restructuring the GATT System*, Royal Institute of International Affairs, Council on Foreign Relations Press, New York 1990.

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16. See Charles Kindleberger, *The World in Depression 1929-1939* (University of California Press, 1986), p. 280.

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19. See"The Yen Block," *The Economist*, July 15, 1989, p. 10.

20. See, for example, "In Asia, the Japanese Hope to Coordinate What Nations Produce," *Wall Street Journal*, August 20, 1990, p. 1.

21. Few believe Krugman that even a virulent trade war would cost the world economy relatively little in terms of lost output. He argues a 50 percent reduction in inter-bloc trade between the U.S., Japan and EC would cut the combined income of the bloc members (forcing them to waste domestic resources to produce more costly substitutes for the imports) by only 2.5 percent. Paul Krugman, "Protectionism: Try It, You'll Like It", *The International*

Economy, June/July 1990, pp. 35-39 Among other things, this argument ignores (i) the dynamic gains from trade -- increased growth due to the efficiencies in operation that trade induces -- that would be lost if the world descended into a trade war and (ii) the macroeconomic stabilization problems associated with reallocating resources.

22. See Lou Wells' "big yawn" hypothesis in "Conflict or Indifference: US Multinationals in a World of Regional Trading Blocs" prepared for this project.

23. See Paolo, Cecchini, *The European Challenge: 1992: The Benefits of a Single Market,* (Wildwood House for the Commission of the European Community, 1988) and Richard Baldwin, "On The Growth Effect Of 1992," *Economic Policy,* 1989, pp. 248-81.

24. See Comments of Robert Z. Lawrence in "Symposium on Europe 1992", *Brookings Papers on Economic Activity*, 1989:2, pp. 368-73.

25. See Gary Clyde Hufbauer, "An Overview," in Hufbauer, ed., *Europe 1992: An American Perspective* (Brookings Institution, 1990), p. 5.

26. See Wilson Peres Nunez, "From Globalisation to Regionalisation: The Mexican Case" OECD Development Centre, Technical Papers No. 24. August 1990.

27. See Henry Kissinger and Cyrus Vance, *Foreign Affairs,* "Bipartisan Objectives for American Foreign Policy", Vol. 66, No. 5, Summer 1988, pp. 899-921.

28. See Rudiger Dornbusch, Paul Krugman, and Y.C. Park, *Meeting World Challenges: US Manufacturing in the 1990s* (Rochester, N.Y.: Eastman Kodak Company, 1989).

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31. See Carl B. Hamilton, ed., *Textiles Trade and the Developing Countries: Eliminating the Multi-Fiber Arrangement in the 1990s*, (Washington, D.C.: The World Bank, 1990).

32. *Ibid,* pp. 1-5.

33. P. 178.

34. P. 171.

35. See Jaime de Melo, Carl B. Hamilton and L. Alan Winters, "Voluntary Export Restraints: A Case Study Focussing on Effects in Exporting Countries," Paper no. 464 (Stockholm: Institute for International Economic Studies, 1990).

36. See Carl Hamilton, "The Political Economy of Transient 'New' Protectionism," Welwirtschafliches Archiv, *Review of World Economics*, vol. 125 (1989), no. 3, pp. 522-46.

37. See for example, Pat Choate and J. K. Linger, *The High-Flex Society: Shaping America's Future* (New York: Alfred A. Knopf, 1986) pp 63 -77.

38. Such a proposal has been advanced by Gary Clyde Hufbauer in *The Free Trade Debate,* background paper for a report of the Twentieth Century Fund Task Force on the Future of American Trade Policy (Priority Press, New York, 1980). For an excellent discussion of these issues see also Sylvia Ostry, *Governments and Corporations in a Shrinking World* (New York: Council on Foreign Relations Press, 1990.