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HOW PROTECTIONISM PROPAGATES ITSELF

Note by the Secretariat

Protectionism is widely decried and there is a consensus, even among those calling for short-term exceptional measures, that it must not be allowed to grow. Despite repeated commitments to liberal trade, a review of the evidence on hand suggests not only a steady rise in the use of restrictive measures, but also that protectionism is in a number of ways self-reinforcing, that each restriction imposed makes it more likely or even necessary that additional restrictions are applied in the future. This note raises the question of the possible self-reinforcing character of protectionism.

Mechanisms by which protectionism spreads

A study of the GATT Survey of Developments in Commercial Policy and of recent press reports suggests that protectionism is tending to spread from product to product and from country to country. There appear to be a variety of influences and mechanisms through which protectionism propagates itself. Here we single out those which have either been particularly effective in the recent growth of protectionism or which seem likely avenues for its further spread, namely:

1. political precedent and example;
2. repercussions through input relationships;
3. the reaction to exports deflected from a protected market;
4. deflection of labour and capital from restrained industries into new lines of production;
5. discriminatory protection stimulating the emergence of new exporters;
6. retaliation by trading partners.

Spread of protection through precedent and example

The impetus for continuing trade liberalization was built up over a long period of time and based in part on the apparent contribution of freer trade to the prosperity of the post-war years. The fact that this impetus has now been checked, if not reversed, owes much to the growing number of instances in which a political precedent has been set for special and temporary cases of protection. Through each of these instances, governments have implicitly set the ground rules for new applications for special treatment. The circumstances thought to constitute exceptional cases are found with appropriate modifications, to characterize a much larger number of industries. With the precedent established, the ability of the government to resist further demands is weakened and pressures from newly organized interests mount.

The circumstances of the recent recession and recovery have generally provided the special conditions deemed to justify increased protection. The recession not only proved to be unexpectedly long but some industries such as steel, shipbuilding, textiles and clothing, shoes and, more recently, synthetic fibre and other lines of petrochemical and chemical production, have shared much less than others in the upturn.

The case of textiles and clothing represented an important already existing precedent and industrialized countries were able to obtain increased protection for this industry through the renewed multi-fibre textile arrangement. The evolution of this arrangement illustrates all too well the power of precedent as well as the difficulty to limit emergency protection in time.

More recently steps taken by the EEC and the United States to prop up their steel industries have set further precedents which are now being exploited by other industries.

Spread of protection through input relationships

Increased protection granted to producers of basic industrial materials such as steel or synthetic fibres adversely affects the competitive position of all products made of these materials. Without significant exceptions, the work force of industries producing such basic semi-manufacturing represents only a small fraction of the employment provided by the user industries, the gross value of whose output is also a large multiple of the value of the semi-manufactured output.¹ Protective schemes for such basic inputs will thus create constant pressure to expand them to cover products which incorporate these inputs.

¹For each man employed in the production of steel in the European Community (total employment in 1975, 556,000) there were twenty-three people employed in the machinery and transport equipment industries (12,700,000). For each man producing synthetic fibres, between eleven and eighteen persons were employed in the textile and clothing industry. (Calculations based on OECD, Labor Force Statistics; Eurostat, Iron and Steel Yearbook 1976; Eurostat, Population and Employment, 1977; International Rayon and Synthetic Fibres Committee, Information on Man-made Fibres, 1977.)

In a number of instances, the trade restrictions adopted have already drawn criticism from the producers and/or the domestic users of the products enjoying increased protection. There has been considerable opposition in the United States and the EEC on the part of industries using basic steel products but whose own products are not covered by the reference price arrangement. According to press reports, European steel users claim that the measures taken for basic steel raise their costs and thereby reduce their export competitiveness. Their concern is that they will be pushed by these measures into a situation similar to that currently experienced by steel. They have received assurances of rebates on steel used in products destined for export, but this does not help them in the domestic market. The press reported that similar protests surfaced in the United States. A firm which uses steel wire rod (a product covered by the trigger-price mechanism) as a raw material, has gone to court and won a decision temporarily enjoining the United States Treasury from applying the trigger-price mechanism to this product. The firm contended that the trigger-price mechanism raised its costs and put it at a disadvantage relative to importers of steel wire whose product is not covered by the protective arrangement. Initially it seemed that the firm would withdraw its suit if the trigger-price mechanism was extended to cover wire products but apparently the company has remained firm. In the case of copper, even during the discussions preparatory to the request by United States producers for increased protection for refined copper, some companies urged much more extensive protection, contending that foreign producers could avoid the impact of a quota on refined copper by sending to the United States market finished-copper products for which there exists substantial excess capacity outside the United States. Steel companies have expressed a similar concern that, if the reference price mechanism is limited to basic steel products, exporters might switch over to finished-steel products.

Spread of protection through export diversion

Protection will also tend to spread as restrictions in a few major countries greatly strengthen demands for import controls in other countries by increasing the quantity of low cost goods that are seeking a market. As one market closes, fears arise that these supplies may be deflected, perhaps suddenly and in large quantities, into the markets that remain open. Thus, after some industrial countries, such as the United States, Australia and Canada, put restrictions on exports of footwear from some developing countries, pressure grew in the EEC to move in the same direction. With the United States and the EEC limiting steel imports, Canada tightened up its surveillance system.

Spread of protection through deflection of labour and capital

Additional protection will also come to be necessary as, with the limiting of export opportunities for low-cost suppliers in certain products, their labour and capital are shifted to other product lines. Thus as opportunities for export growth in cotton textiles and clothing items were restricted by quotas, producers in developing countries were quick to move into artificial and synthetic textiles production thus eventually necessitating the extension of quantitative restrictions into this area of trade. Undoubtedly some of the labour and capital presently producing the shoes and electronic products, on which protectionist pressures are converging now, were also attracted to these industries from the production of textiles and clothing, once the long-term growth opportunities of the latter sector came to be seen as unpromising.

Spread of protection as discrimination stimulates new supplies

In the case of orderly marketing arrangements, protection will not only tend to spread to other importers but the arrangements will also have to be expanded to include additional countries capable of supplying the market in question. Where a large investment is necessary to create or expand export capacity, orderly marketing arrangements may well discourage this investment and keep potential suppliers out. However, where production is labour intensive and particularly where it is in the hands of highly mobile multi-national corporations, orderly marketing arrangements that concentrate on one or a few countries will merely serve to relocate the source of the troublesome imports. Producers enjoying increased protection from orderly marketing arrangements have indeed complained that they have very quickly faced a sharp rise in imports from other sources. Thus press reports state that United States producers of coloured TV complain that the orderly marketing arrangement concluded with Japan in 1977 has been of little benefit to them since it has merely accelerated the rate at which Japanese companies have shifted production to other low-cost Asian countries and to the United States itself.

Spread of protection through retaliation

While orderly marketing arrangements mute the criticism of trade restrictions by securing the exporting countries' assent, unilaterally imposed measures have sometimes brought threats of counter measures. Thus last summer the press reported that Australia made it clear to the EEC that access to Australian uranium was not unrelated to EEC treatment of Australian steel and other commodities. Another example found in the press is the

following: Japan has been caught in the middle between its steel export markets and its suppliers of raw materials for steel production. As demand for its steel exports has declined, Japan has cut imports of coal and iron ore from major suppliers such as Australia to levels well below those expected a few years earlier. Australia has countered with a strong request for special treatment for other Australian exports.

Concluding remark

It is also worth noting that, increasingly, an industrial pressure for the formation of a "recession cartel" comes first, and protection against imports follows as a necessary means to maintain the cartel in existence. This new phenomenon, too, illustrates the power of precedent; and thus it is likely to give rise to a growing problem, not only for the mutual trade relations of the core countries of the world economy, but also for the administration of their national competition (anti-trust) laws.

Questions to which the Group might address itself

The issues raised above lead to three basic questions to which the Group might address itself:

1. Does protectionism tend to propagate itself and, if so, through which mechanisms and influences?
2. Which methods of coping with protectionism have governments found particularly effective?
3. In what ways can governments help each other in coping with protectionism?