

Chapter 5

Trade Liberalization in the CSFR, Hungary, and Poland: Rush and Reconsideration

János Gács

Introduction

In the rich literature on attempts at liberalizing trade there is ample evidence that for less developed economies trade liberalization usually takes a long period of time. The opening up of economies has successive phases of progress, reversals, and even serious regressions. Taking an overly restrictive trade regime as a starting point, the whole process of liberalization may last for two to three decades on average.¹ The chance of success of a zealous move for trade liberalization depends on many factors: the position of the economy in the international distribution of labor; the tendency of balance of payments, external indebtedness, and foreign aid; the accompanying package of macroeconomic policies; the stage the economy achieved in

¹ Compare the analyses in the latest extensive project of the World Bank (Michaely *et al.*, 1991) and the project of the National Bureau of Economic Research (Bhagwati, 1978; and Krueger, 1978).

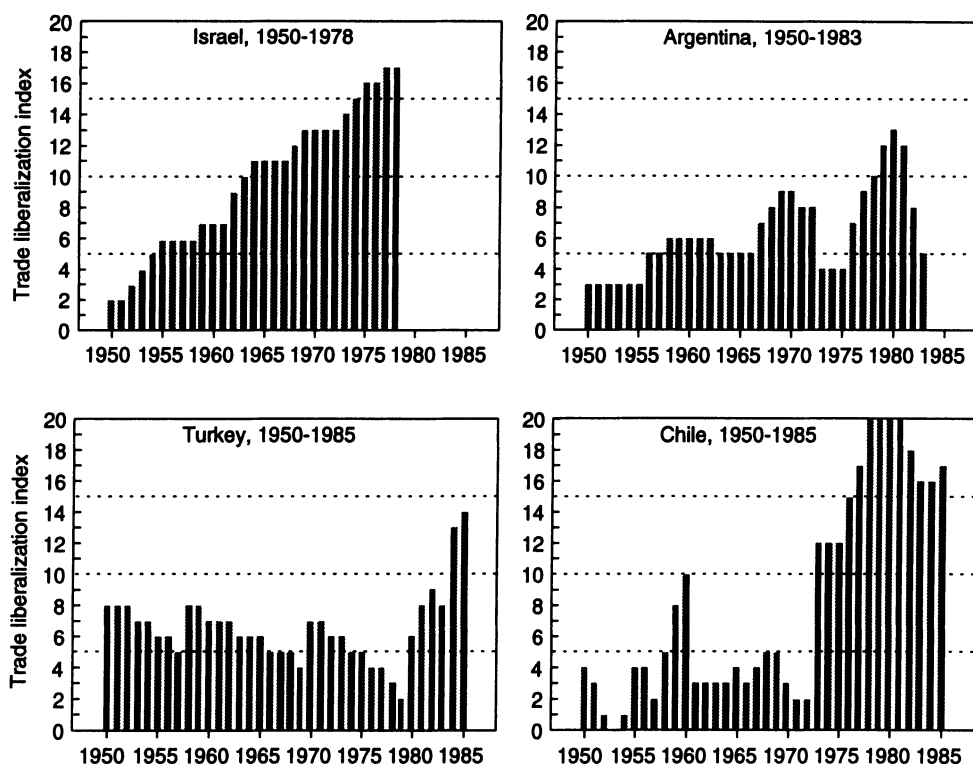


Figure 5.1. Characteristic patterns of trade liberalization in Israel, Argentina, Turkey, and Chile. Source: Michaely *et al.*, 1991.

establishing modern institutions of a market economy; the efficiency of its political institutions; the power of pressure groups, and so on.

In *Figure 5.1* the graphic presentation of progress of trade liberalization in some representative countries are reproduced from the latest World Bank comparative analysis of trade liberalization. The index of trade liberalization used by the authors of that project is a composite index of a diversity of measures concerning tariff and nontariff barriers, interventions in trade, and general economic activity, such as export subsidies and price control. It is also an ordinal index that varies from 1 (the theoretically most restrictive, interventionist regime) to 20 (the theoretically most liberalized one). Different patterns of trade liberalization are well exemplified by the economies in the following four countries: Israel, slow and gradual progress