Comparing Quotas with VERs: A Three-Region, North-South-NICs Macroeconomic Analysis

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Abstract

The paper presents a three-region macro-economic model of the North, South and NICs. Discriminatory commercial policy is undertaken by the North against the South and the NICs: a quota is used against the former and a VER against the latter. Contrary to most of the existing literature on macro-commercial policy, the initiator of the policy (the North) could gain from such a mixed commercial policy in terms of output and employment. This would normally be at the expense of the South (lower terms of trade), whereas the terms of trade for the NICs could improve, although not necessarily.

As the world approaches the new millenium, the issue of protectionism is once again at the forefront of international economic relations. Indeed, our age has been described by some economists (Bhagwati 1988, 1990) as an era of “managed trade.” The implication of this term is the movement away from multilateralism with fixed rules to bilateralism in the conduct of trade policy. Organizations such as GATT were set up to monitor and promote multilateralism in trade policy in the post-war era of Pax Americana. With the gradual emergence of new economic superpowers with trade surpluses, such as Japan and Germany (until recently), and the serious payment problems faced by the United States (specifically its trade deficit), multilateral rules in international trade policy have tended to fall by the wayside. They are increasingly being replaced by bilateral negotiations and trade policy, negotiated between (economically) powerful nations or blocks (such as the EEC). Additionally, commercial policy is being increasingly asso-
ciated with “aggressive unilateralism” on the part of the United States, given its balance of payment problems and relative decline in international competitiveness, evidenced by its actions regarding unfair competition and other factors such as labor conditions in exporting nations. The EEC’s commitment to “managed” trade is also adamant. All these problems and others have posed difficulties in the Uruguay Round of GATT. These matters, as well as the dangers of the decline of multilateralism, are succinctly discussed in Bhagwati (1990).

Against this background of growing bilateral negotiations among the powerful economic blocks (Japan, the EEC and North America) are the so-called newly-industrialized countries (NICs), such as South Korea, Taiwan and the other developing nations often referred to as the “South.” What direction is commercial policy in the developed world (or the “North”) toward these two groups likely to take? Some NICs such as South Korea and Taiwan have large trade surpluses and have succeeded in capturing substantial shares of Northern markets for a variety of goods. Clearly, this has led (and will continue to lead) to a protectionist backlash against them in the North in import-competing sectors. Moreover, as the NICs grow and acquire competitiveness in new products, poorer nations in the South begin exporting goods to the North previously supplied by the NICs. There are protectionist tendencies directed toward them as well, and protectionism toward the South has witnessed the most rapid growth, rising faster than protectionism among nations of the North (Page 1987). The point of interest in this connection is that protectionism directed against the NICs and the South is likely to take different forms, reflecting the greater economic power of the NICs.

New and novel forms of protectionism have appeared in the last decade and a half with the growth of non-tariff barriers (NTBs). Among them are voluntary export restrictions, or VERs. A VER is discriminatory because it is negotiated with specific countries and thus falls into the category of bilateral trade restrictions. In addition, a VER tends to convey a degree of monopoly power on to the exporter. It is the exporter who is able to collect the rent, rather than the importing nation. Quotas (or their equivalent tariffs) are, on the other hand, relatively more general (multilateral) and tend to be less discriminatory; they imply more competition; and the rents from them usually remain in the importing nation. VERs are more likely to be used, although not exclusively, against exports of relatively more powerful nations, such as the NICs, whereas quotas are more likely to be used against the poorer nations of the South. For example, the United States has favored a more general multilateral quota to replace the multi-fiber agreement