The distortions in world trade are numerous and stem from a wide variety of causes. In the following article we shall describe the most significant recent developments and their causes and outline possible economic policies to allow world trade to evolve more naturally.

The continuing onward march of protectionism has proved to be one of the main threats to the development of a dynamic world economy. In this context it is particularly interesting to note that on balance the developing countries carried out more liberalisation measures in 1986, by contrast with events in the industrialised countries.¹

The macro-economic costs of protection are probably extremely high, as several estimates have shown; in the case of the Federal Republic of Germany, the Cologne Institute for Economic Policy put them at DM 75 billion a year in 1985.² According to calculations by the Ifo-Institute, the German Institute for Economic Research in Berlin and the Kiel Institute of International Economics, the removal of protectionism could increase Germany’s gross domestic product by 6 %, or DM 100 billion, and employment by 9 %, equivalent to 2 million jobs.³ Another estimate of the cost of protectionism, purporting to show that complete liberalisation of OECD countries’ trade could lead to a 10 % increase in developing countries’ exports and a 3 % growth in their national product, aroused much interest at the Annual Meetings of the International Monetary Fund and the World Bank in Berlin.

Two opposing trends have been evident in recent years as far as protectionism is concerned. On the one hand, six multilateral trade agreements concluded under the auspices of GATT since the end of the second world war have steadily reduced the incidence of customs tariffs. According to estimates by GATT, the average rate of duty levied on finished industrial products by the major industrial countries had fallen to about 6½ % by the beginning of 1987.⁴ This is a notable achievement, even though rates of duty remained high in some areas, such as trade in agricultural products and textiles, and in certain developing countries, owing partly to policies of import substitution. On the other hand, by contrast, the regulation of world trade by means of non-tariff trade barriers increased considerably in the seventies, especially after the second oil crisis. GATT bases its calculations on the assumption that around 40 % of world trade is affected by non-tariff trade barriers.⁵ The extent of the restraints on individual industries differs widely, as shown by an UNCTAD estimate based on imports: 67½ % of the clothing industry was affected, 64 % of the steel industry and around 50 % of the agricultural sector.⁶

Although it is very difficult to quantify non-tariff trade barriers owing to a lack of transparency and problems of identification, figures such as these at least give an idea of the scale of the impediments to a free world trading

² Forschungsinstitut für Wirtschaftspolitik an der Universität Köln: Die gesamtwirtschaftlichen Kosten der Protektion, Cologne 1985, research project commissioned by the Federal Minister for Economic Affairs.
³ Ifo-Institut für Wirtschaftsforschung (Ifo), Munich; Deutsches Institut für Wirtschaftsforschung (DIW), Berlin; HWWA-Institut für Wirtschaftsforschung-Hamburg; Institut für Weltwirtschaft (IWW), Kiel; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Essen: Strukturberichte 1987 des Bundesministers für Wirtschaft.
⁵ H. Werner: Das GATT heute, speech to the fiftieth annual meeting of the Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute, 7th-8th May 1987, Bonn.
system. GATT already lists more than 800 variants of non-tariff trade barriers, based mainly on bureaucratic technical regulations.

Between March and September 1987 alone GATT recorded 135 "grey-area" measures. The forms that non-tariff restraints to trade can take are extremely varied; for example, they may be quantitative restrictions (e.g. import and export quotas or voluntary export restraint agreements), administrative and other trade restrictions (e.g. anti-dumping measures, consumer protection regulations or technical standards). The examples in Table 1 illustrate strikingly the diversity of measures taken in 1986 alone and the large number of countries involved.

**Discriminatory Bilateralism**

One of the characteristics of most of the non-tariff trade restrictions introduced recently is that they lead to discriminatory bilateralism, primarily taking the form of bilateral arrangements outside the multilateral surveillance mechanisms of GATT, as the following selected examples show:

- The new US Trade Act, containing unilateral US trade restrictions that conflict with GATT agreements; the growing opposition to foreign direct investment in the USA and the Act to curb textile imports, which has recently been passed by a large majority in the Senate, should be seen in the same light.
- The continuing differences of opinion over the semiconductor agreement between the USA and Japan and disputes about contracts in connection with Kansai Airport.
- The conflict between the EC and Korea, which shows partiality towards US patent holders in that country; as a result, the EC has temporarily suspended customs preferences for Korea.
- Continuing differences of opinion about the proposed EC guideline for meat treated with hormones and US complaints of prohibited and unfair support for soya-bean producers in the EC.
- Bilateral co-operation agreements, such as the one concluded recently between Italy and Argentina, the free trade agreement between the USA and Canada or the mooted free trade agreement between the USA and Japan. It has to be realised that such agreements can harm other countries, even though it is normally only the benefits that are publicised. The statement by US Treasury Secretary Baker before the US House of Representatives on 9th January 1988 is symptomatic in this regard; he said that, "As developed countries with similar industrial structures and economic concerns, we will both benefit from bilateral trade liberalisation and our other trading partners around the world will benefit from our increased prosperity".8

Even agreements such as the free trade agreement between the EC and EFTA, which is considered to comply with GATT rules, or the co-operation agreement between the EC and the ACP countries raise the question of whether they might not be detrimental to other countries. GATT therefore provides for compensatory measures for third countries in such instances.

**Agricultural Protectionism in the EC**

- Trade restraints as a result of agricultural policy: this will remain a permanent theme in EC relations with the USA, but increasingly also in those with developing countries.

Between 60 and 70% of the EC budget is spent on agriculture. There has been little sign so far that the permanent reduction in overproduction has begun or that world agricultural markets are functioning better. On the contrary, the OECD stated in a note of 23rd April 1987 that, "Over-reliance on output-related subsidies and ever-higher public spending in OECD countries merely postpone the day when adjustments will have to be made: they would be all the more draconian and could not prevent many producers from becoming a marginal group in society. Exporting countries in the developing world would be obliged to join in the price and subsidy war, whereas importing countries would be forced to abandon the reorganisation of their agriculture needed to foster sound economic growth. The economic, social and political sequels to all this could cause the system to collapse and bring in a cycle of gluts and shortages that could not fail to damage the world economy."9

A reduction in EC agricultural regulation would have manifold economic consequences in Germany. An internal study by the International Monetary Fund estimates that over the short term, in other words within one or two years, consumer prices would fall by 5%, total employment would increase by around 4% and GNP would rise by 3%. More important perhaps would be the fact that the EC, which today is the second largest

---

9 OECD C/MMN(87)4. Ministerial Mandate on Agricultural Trade (Note by the Secretariat-General).