

II The Facts

Occasional Paper No. 38 of the International Monetary Fund contains a full review of policies, the facts about actual protectionist measures, available evidence on the costs of protection, and discussion of negotiating issues, all based on information available up to early 1985. In addition, it contains extensive further references. Furthermore, there is a thorough survey of recent developments, as well as of major protection policy issues, in the World Bank's *World Development Report, 1987*. Hence the present paper deals purely with analytical issues. Nevertheless, before launching into the main discussion, something should be said about recent protectionist trends.²

As usual, the "facts" on their own are rarely conclusive. Nevertheless, at the risk of over-simplification, one can summarize the situation as follows.

1. Protection in industrial countries has increased since 1980, the extent of the increase being difficult to measure. But a higher proportion of imports is now covered by nontariff barriers of some kind and one can identify particular product areas where there have been increases. In trade in manufactures, the most important and prospectively most adverse development is probably the 1986 tightening up (through expansion of coverage) of the Multifiber Arrangement. From the point of view of many developing countries, including not just actual but also potential exporters of clothing and textiles, this is currently the biggest problem.

2. Industrial country markets for manufactures are, however, still pretty open. A high proportion of consumption consists of goods for which there are no nontariff barriers at the borders (in 1983, 84 percent of manufactured imports and 64 percent of agricultural

imports entered freely into industrial countries, although these shares do not allow for subsidies on domestic substitutes). Imports from developing countries have continued to increase, although there are indications that the share of exports from developing countries in non-oil world trade has declined since 1980. Tariffs are also generally very low, the result of the several GATT rounds of multilateral tariff reductions (though they tend to be relatively higher on developing countries' industrial exports). Protection is concentrated in limited areas, notably agriculture, clothing and textiles, and steel. Preference for home producers in public procurement is a form of protectionism that is hard to measure but is probably important in all industrial countries. Formal protection in Japan is low (aside from agriculture) and there are differences of view about the extent of "informal" protection which is, of course, also hard to measure.³

Thus, while there has been some increase in protection, the revival of protectionism in the industrial countries, notably in the United States, at least outside clothing, textiles, steel and agriculture, is at present more of a threat than an actuality. The current issue, of course, is whether threat will be translated into actuality.

3. There is a special, and possibly increasing, problem of competitive subsidization of agriculture by the European Community and the United States. Agricultural protection is also high in a number of other developed countries, including Japan. This presents a particular problem for other agricultural exporters at a time of weak commodity markets.

4. Protection in developing countries is generally much higher than in developed countries, covering a much broader range of imports, and is often extremely high by any measure. In almost all cases it is biased against agriculture. On the other hand, there is no evidence of an overall increase in protection in developing countries in general, and in some countries there have been significant moves to liberalization.

5. Only the roughest estimates can be made of the cost of protection by nontariff barriers. In particular cases (clothing, textiles, agriculture, and motor vehicles)

²This summary is based on a number of sources. While the Fund's Occasional Paper 38 is the starting point, it is supplemented with the Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions* of 1986 and 1987, and with OECD (1985), Nogues, Olechowski, and Winters (1986), and Finger and Olechowski (1987). The latter three publications provide information on the extent of nontariff barriers in industrial countries and recent changes. The Bank's *World Development Report* for 1986 contains an extensive review of agricultural protection in both developed and developing countries. The *World Development Report* for 1987 contains a similarly extensive discussion and review of empirical material on industrial protectionism, Chapter 8 on "the threat of protectionism" being particularly relevant. Finally, there is a thorough analysis of protection in Japan, especially intangible protection, in Bergsten and Cline (1985).

³On the basis of Bergsten and Cline (1985), one might conclude that Japan's market is roughly as open as the U.S. market, which makes it (again aside from agriculture) a fairly open market.

the cost has sometimes been shown to be very high in relation to the value of protected output. Since tariffs are no longer the main instrument of protection, the usual measures of protection costs are no longer adequate. Most comprehensive measures of nontariff barriers are rather limited, simply measuring either the coverage of protection—such as the proportion of imports subject to some kind of nontariff barrier—or the presumed effects on trade flows.⁴

6. There is extensive evidence that countries with outward-looking regimes (which is not the same as complete free trade) have higher growth rates. This evidence is summarized in Balassa (1985) and in the

⁴Many calculations are reported in the references listed in footnote 2.

Bank's *World Development Report* of 1987. In particular, there seems to be some correlation between export growth, following upon a shift toward a more outward-looking regime, and the aggregate growth rate. Of course, growth rates also depend on other considerations.

7. Finally, a hopeful indication is the Punta del Este Declaration of the GATT Contracting Parties launching the eighth round of multilateral trade negotiations. The declaration, adopted by consensus, states, among other things, that negotiations shall aim to "bring about further liberalization and expansion of world trade," to "strengthen the role of GATT," and "improve the multilateral trading system based on the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines."