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EXPORT PROMOTION IN THE CONTEXT OF THE „NEW”  
PROTECTIONISM

(Short Macro-Economic Comment in the Framework of Discussion  
on Distribution Systems)

1. SOME REMARKS ON PROTECTION AT THE END OF THE 70'S

The postwar trend in international trade was towards an increasingly more liberal system. However, many countries have been recently demonstrating a shift in the opposite direction. This shift away from liberalization is a cause of serious concern.

The general argument against protectionist trade measures is that they provide no real solution to the underlying problems of the protected industry — and that they ignore more crucial reasons — why this or that branch of the domestic industry is „losing ground” to foreign competitors. Protection ensures special treatment for the domestic producers of the import competing goods. This may act to stimulate domestic sales and protect the share of these industries in the domestic market. In turn, this benefits labour employed in the protected industry by preventing layoffs and by maintaining the wage level at an artificially high level. This argument for protection is a powerful one connected with such socio-economic problems as unemployment. Protection means that relatively inefficient industries are able to hold or attract new resources, while the economy foregoes the higher level of income and employment that would have gone to more efficient industries in the absence of protection. The most difficult problem which results is that protective measures once adopted tend to become entrenched as the sectors that benefit develop a vested interest in preventing their removal.

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The system of protection has also direct adverse effects on the exporting country. It reduces access to foreign markets so that exporters cannot share fully in the benefits of international trade. While various types of restrictive trade actions have been taken by a large number of countries, the most important is what has been going in the principal industrial nations, which are the world major traders: Canada, the EEC, Japan and the United States collectively represent about 60 per cent of total world imports. A study<sup>1</sup> conducted on trade measures adopted recently by major industrial countries showed that such protection measures have tended to be concentrated in certain industrial sectors: textiles, clothing, footwear, steel, consumer goods, electrical products, shipbuilding, certain agricultural and food products (in particular — beef).

The trade actions adopted have affected the sectors in which many developing and primary goods producing countries have an actual or potential comparative advantage and where the restrictions can seriously affect their scope for export expansion and economic growth.

Various types of trade actions have been used recently, but what is to be noticed is the decreasing role of tariffs (well known as a classic instrument of protection), the increasing resort to escape clause actions and countervailing duty and the use of nontariff barriers.

The „new-comers” in the system of foreign trade control used in market oriented economies are various types of bilateral arrangements that quantitatively limit trade and often remain outside the framework of existing international rules<sup>2</sup>, but at the same time, effectively eliminate risk. (This trend was begun in the textile sector in the early 60's with the Agreement on Control of Trade in Cotton Textiles). Experience with the operation of bilateral restraint arrangements — either under a multilateral framework or on a purely ad hoc bilateral basis — suggests that such restraints may perhaps introduce an element of certainty in trade relations in the short term. Antidumping and countervailing duty procedures are considered as a form of protective counteraction, a response to measures taken by exporting countries. (These measures are taken against exports that may be subsidized or sold below domestic prices or cost). But because it is very difficult to prove this — or even if so then to calculate the level of subsidy there is usually no equivalence between promotional export actions and protective counteractions as the latter are usually much stronger in their

<sup>1</sup> *The Rise in Protectionism*, „International Monetary Fund Pamphlet Series”, No. 71, Washington D.C., July 1978.

<sup>2</sup> Regulated and accepted by GATT.



effect. Moreover, there are no general rules and/or criteria determining degree of dumping and subsidization.

At the end of the 70's the issue of protection must be considered as an integral element of the world and national economy. An analysis of protection must take into account a multiplicity of factors — economic, social, and political. In particular, recent experience suggests that perhaps the most crucial factor — and the one most likely to influence policy choices toward protection — is the extent and duration of unemployment in developed countries. One of the most frequently cited arguments is related to import penetration — that is imports as a proportion of domestic consumption. If this ratio rises suddenly, it may be considered as so-called market disruption, injuring domestic industry. But then arises the next important problem of establishing conditions of „market disruption” and „domestic injury” in the importing country. And once proved, if there are to be safeguards for the importing country, what are the different effects of protection via suspension of a tariff concession, the imposition of quantitative restrictions or the institution of „voluntary export restraint”? What relevance does the principle of „non-discrimination” have? Do the legislative terms of „orderly marketing”, „fair share”, „equitable share” have any economic meaning? There are many more such questions. The world trade at the end of the 70's is in need of absolutely new „code of good behaviour”. Rules and principles worked out 30 years ago can no longer be appropriate now. That is the reason why there have been so many escape clause actions and exceptions to the rules over recent years. The need to strengthen the GATT framework has come to be increasingly recognized, and has been attempted in the discussions of the „framework” group in the context of the recently concluded multilateral trade negotiations. There is a tremendous conflict between short-term interest of trading nations and the broader objectives of promoting growth of the world trade and income.

Another problem is whether the principles of nondiscrimination and reciprocity (on which the world trading system is formally based) can withstand the growing pressures of protectionism. And if so, what is the real base of reciprocity under these conditions?

The technical ingredients exist for future changes in the structure of the world trade comparable to a new international industrial revolution. But it will be a test of effective international policy whether or not this potential will be realized<sup>3</sup>. The objective is to approach an optimal (or at least a second-best) correspondence between optimal

<sup>3</sup> B. Herman, *The Optimal International Division of Labour*, Geneva 1975.

trading conditions and the use of effective domestic policy instruments. Considering the possibilities of implementation of export-oriented strategy, we must take into account the situation (present and potential) in developing countries.

A significant new development is the diversification of the export base of developing countries and the challenge that they present in a number of new industrial sectors.

This development has some notable features:

- some industries (steel, ships, electronics) have been built up in developing countries mainly for export market;
- the incredible flow of manufactured exports from developing countries was a consequence of earlier investments in the industrial sphere with the financial, technical and managerial encouragement of industrial countries (unforeseen effect);
- the growth of export capacity in developing countries has also meant the growth of their import capacity.

Many developing countries have been changing to a so-called export substitution strategy (promotion of non-traditional exports). Already they are able to export a variety of products: the traditional labour intensive goods (textiles, footwear); import substitutes turned exports (automobile parts, bicycles, motors); processed primary products (food-stuffs); new labour intensive goods (plastic articles, furniture); intermediate products and components (electronics, tools, components of engines, parts for machinery, transport equipment)<sup>4</sup>. Although textiles and clothing remain the largest single product group of exports, the share of other manufactured exports is increasing.

Besides relative factor endowments, another explanation of comparative advantage — the product cycle — also suggests that the list of goods which developing countries can expect to manufacture and export on a competitive basis will be continually expanding. The import of manufactures from developing countries has been one of the most dynamic elements in the world trade.

## 2. U.S. TRADE POLICY VERSUS PROMOTION OF POLISH EXPORTS

United States trade policy is a good example of several of the aspects of protectionism discussed in the preceding section for various reasons:

- it includes many types of protective measures and procedures;

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<sup>4</sup> G. M. Meier, *International Economics Series*, Geneva 1977, p. 38.



— the U.S. market is rather important for Polish exports, as the U.S. is one of Poland's main trading partners;

— trade policy in the U.S. is rather complicated but still an open procedure as everything is officially published. Crucial principles and rule of U.S. trade policy are based on the 1974 Trade Act which can be considered as a kind of codification of existing rules.

There are two elements of the U.S. trade policy which are of great interest for Polish exports and their promotion: anti-dumping procedures and market disruption clauses.

According to American opinion<sup>5</sup> Polish exporters have some difficulties in recognizing these new protective devices and in understanding relevant legislation. And it happens that exporters pay too much attention to high level policy instead of observing what is going on at the firm level. Very often Polish exports are considered to create unfair competition because of government subsidies and such exports are met with countervailing duties and protective measures.

Very important protective instruments of the U.S. trade policy are quotas which the U.S. applies mostly against fibers, textiles, and clothing under the international Multifiber Arrangement. Nontariff barriers such as health and technical standards are less of an obstacle for Polish exporters who have more experience in this field.

As far as dumping is concerned, there are some definitions employed by the U.S. courts which may be consulted on: unfairly low prices, price discrimination, and the so-called LFTV (less-than-fair-value-imports). The latter must cause injury to the market directly affecting the import-competing producers. This definition of dumping is strictly connected with prices and exchange rates in centrally planned economies. For Poland, there are no problems connected with the export of raw materials as Poland also sells at world market prices, but there is a crucial problem with manufactures (including such considerations as calculation of costs on the import side, processing and valuation of imported components).

For what reasons may Polish practices be consequently considered as dumping? (Again from the American point of view). The reasons behind this are several and include:

- overcoming of barriers to market entry;
- overcoming of other possible forms of discrimination;
- fulfilment of export plans;
- result of bilateral agreements.

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<sup>5</sup> These remarks are based on a lecture given by Professor Paul Marer at the Institute of Marketing, Łódź, University, 2 April 1979.

What may be suggested in this case if export-oriented strategy is to be the goal for the Polish economy in coming years? First of all, economic decisions must be based on efficient and rational choices — a combination of central preferences plus economic calculus. Furthermore, other essential measures should be adopted including the following:

- 1) At least a second-best level of exchange rate must be used to limit the sphere of protection.
- 2) A wider use must be made of the so-called transactional prices.
- 3) Marketing and distribution services must be made modern and dynamic.
- 4) There should be less fear on the part of producers of risk and market disruption<sup>6</sup>.
- 5) Producers should compete on a non-price but quality basis — mostly because of market requirements.
- 6) There should be better and more industrial co-operation (like the example of Bumar-Harvester).

For various reasons the comeback of trade liberalization may be only wishful thinking in the near future as depressed economic conditions continue to be the rule in market-economy countries. The world economy at the end of the 70's is a changed one and should be seen in the light of increased protectionism by those planned-economy countries, such as Poland, wishing to integrate themselves more fully into the international trading system.

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#### PROMOCJA EKSPORTU W KONTEKŚCIE „NOWEGO” PROTEKCJONIZMU

Artykuł dotyczy bardzo aktualnego problemu całej gospodarki światowej i ekonomik poszczególnych krajów — tzn. systemów protekcji. Współczesny protekcjonizm nie ma wiele wspólnego z jego wydaniem klasycznym. Zmieniły się bowiem stosowane instrumenty i zasady postępowania. Nie jest to już jeden z wariantów polityki handlowej, ale integralny element systemu kierowania gospodarką. W artykule przedstawiono zagadnienia, które mogą mieć istotne znaczenie dla gospodarki polskiej w sytuacji realizacji strategii intensywnego, eksportowego rozwoju.

<sup>6</sup> Anti-dumping procedures are undertaken usually only after 10 per cent of the market share has been obtained by importers, which is rather exceptional.