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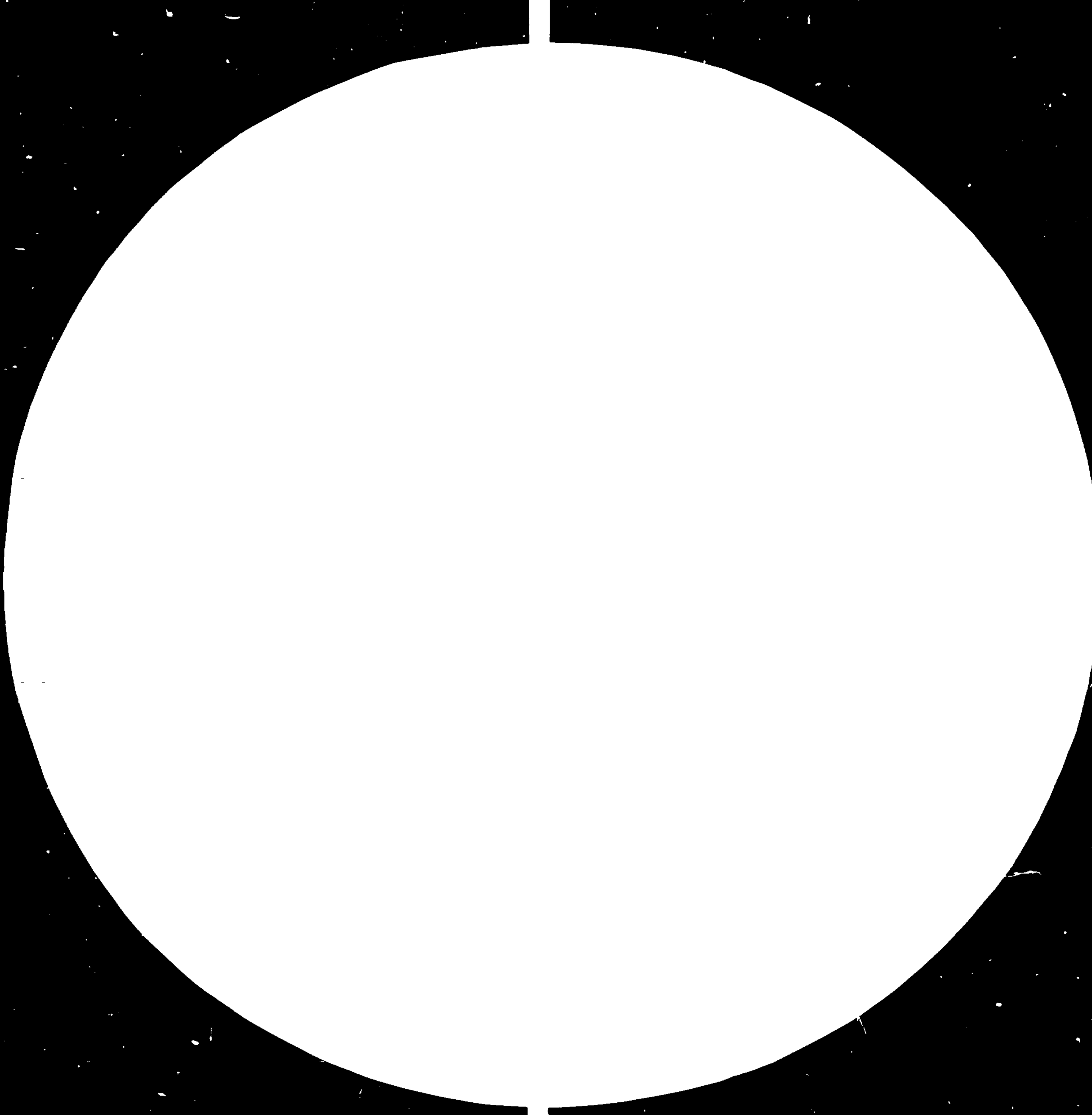

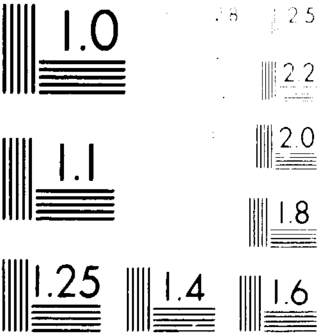
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U.S. PROTECTIONISM AGAINST DEVELOPING COUNTRIES: A CRITICAL ASSESSMENT IN NORTH-SOUTH PERSPECTIVE*

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Introduction and Summary:

The problem of spreading protectionism among nations in difficult times is an old phenomenon. What is new is the circumstances in which the current protectionism is raising its head again while its potency to hurt everyone is heightened because of increasing interdependency throughout the world economy.

Pressure appears to have mounted recently in the U.S. Congress for the passage of laws which could trigger a spiral downward in world production and trade. Bills tabled in the U.S. Congress advocate "the principle of reciprocity" by which the U.S. would grant access to its market only if its trading partners are judged to be granting "equal access", however defined, to the U.S. goods. The immediate purpose seems to be to put pressure on Japan to correct the bilateral trade imbalance. Such bilateral approaches would, however, tend to fragment the existing world market, to restrict trade based only on a unilateral judgment of reciprocity by the U.S., and to invite other countries to follow the U.S. example. If the trade balance turns against the U.S. bilaterally, the reciprocity principle would enable the U.S. to "equalize" matters by imposing new restrictions on imports from a particular trade partner. This portends a powerful tool for increased U.S. protectionism guised in the new word "reciprocity".

This possibility invokes the memory of the 1930's slide into Bilateralism, protection, and its ultimate consequences. If the law is enacted, it will certainly poison the global trade system which is already suffering from recessions; its anti-trade and anti-growth consequences would hardly be acceptable to developing countries let alone other industrial countries. As an additional tool for increased protectionism in the U.S., the reciprocity principle used against Japan could ultimately be used against the interests of developing countries. Initially, the measure of "voluntary export restraints" was instituted to curb Japanese exports to the U.S., but subsequently the application of this measure against Japan led to its use in obstructing exports of developing countries to the U.S. as well.

It behooves us, therefore, to review at this time the implications of U.S. protectionism in the context of North-South debate. The purpose of this paper is to appeal both to the rationality of U.S. law makers and policy makers, and to the responsibility of the U.S. as a global leader, to assist in expanding the world economic system rather than in contracting it. The following points will be stressed in this appeal:

1. The consequences of U.S. protectionism hurt not only the economies of developing countries but the U.S. economy as well by obstructing trade, growth, employment, and consumer welfare. U.S. protectionism produces a multitude of undesirable effects in the U.S. economy which the current administration has commited itself to fight against - namely, inflation, unemployment, low labour productivity, retardation in growth, and spreading of protectionism to other industrial countries. For the logic of this argument, see the text.

2. The stop-go nature of U.S. protectionism adds uncertainties to the global economic scene already plagued by recessions and instabilities. This discourages investment in developing countries. It can be argued that the declining industries in the U.S. are protected at the expense of potential growth of developing countries. The upshot is to hinder the global maximization of output and employment. If this trend continues, it makes economic sense to think seriously about "delinking" the developing countries' dependence on trade with the U.S. as an avenue of growth.

3. The credibility of the U.S. trade policy appears to be at stake. It is difficult to come up with answers to the following questions. Why does U.S. policy discriminate against manufactures from developing countries? Why does U.S. policy discriminate against the U.S. consumers and U.S. exporters in order to favour the sunset industries? One explanation which transpires is that the political clout and bargaining power of economic actors are rewarded at home and abroad regardless of efficiency considerations or the principles alleged to guide the U.S. trade policies, e.g., the virtues of the market system or democratic world. If the use of power is the only way to influence U.S. policy instead of economic rationality, then developing countries may also be prompted to play the same game. The

primary cause of the Third World movement for solidarity, or the birth of the South-South (delinking) model, may be found in the U.S. behaviour.

4. U.S. protectionism is the antithesis of market mechanism since the former necessitates a cartelization of traders by government interventions. One wonders whether Reaganomics, allegedly based on market mechanism, is only for preaching and not for practice so far as trading policies are concerned.

5. The most fundamental problem of the U.S. economy is the long-term productivity declines which have resulted in the loss of her competitiveness, and not the problem of trade with developing countries which is only a symptom. If, therefore, the basic root causes of the productivity slowdown were eliminated, most likely the demand for the policy of protectionism would disappear. The basic causes include slow-downs in investment, declines in labour quality, inadequate R and D expenditures, choking government regulations, etc. A set of revitalizing programmes is needed for the U.S., but it does not seem so clear whether Reagan's current policy package for contraction would bring this about.

6. Unfortunately, the political basis of U.S. protectionism appears to lie in the politician's short-run survival goals. The political lobbying organizations, which represent the interests of declining industries, appear to wield disproportionate power in U.S. election politics which come every four years for the presidency and every two years for the Congress. Hence, the long-term interests of the U.S. economy tend to be neglected in the process. Perhaps, for the long-term health of the U.S. economy and for the world economy as well, a new form of conflict-resolving mechanism may be needed.

This paper provides a critical assessment of U.S. protectionism by examining its detrimental consequences not only to developing countries, who are becoming more important as trade partners with the U.S., but also to the U.S. economy itself. This issue directly concerns one of UNIDO's objectives, which is to facilitate industrial restructuring in favour of developing countries.[1/] Comparative advantage is an important criterion for the policy of industrial restructuring, but protectionism tends to block the workings of comparative advantage.

It shall be argued below that U.S. protectionism is harmful to the long-term interest of both the U.S. and developing countries b elaborating on (1) anti-trade effect, (2) anti-growth effect, (3) anti-employment effect, (4) anti-consumer welfare effect, (5) anti-market mechanism effect, and (6) protectionism and productivity declines in the U.S. The paper ends with a positive policy recommendation to grapple with the productivity decline in the U.S., the most fundamental aspect of the whole issue. By reducing, or better yet by eliminating protectionism against developing countries, the detrimental effects could be minimized, and the global balance of industrialization improved.

Anti-Trade Effect of Protectionism:

The obvious direct effect of protectionism is to reduce imports to the U.S. Less obvious, but perhaps more worrisome, are the costs of trade-inhibiting effects which indirectly operate against the U.S. itself as well as against developing countries. First, protectionism indirectly hurts the U.S. exporters in two ways. Import restrictions pushes up the price of protected items putting the users of the protected items at a disadvantage. For example, if the steel industry is protected, the machine-export industry, an important exporter in the U.S., would suffer in the international market. They must compete with foreign producers who are able to purchase steel products at world market prices. Further, protectionism reduces export earnings of developing countries which could have been used to purchase U.S. goods, e.g., machines, chemicals and grains. It should be remembered that these countries buy nearly 40% of all U.S. manufactured exports.

Second, U.S. protectionism tends to lead other industrial countries to adopt similar protectionist policies. If the U.S. protects an industry, be it textile goods or steel products, the EEC countries would fear that their internal markets might become the next target of intensified penetration by developing countries. Such fears create what one might call a policy-chain-reaction effect, detrimental to the global balance of industrialization via restructuring production and trade. It should be recalled that the impetus for the first major set of post World War II import restrictions came from the United States, which concluded a bilateral voluntary export restraint agreement with Japan in 1957. Ever since, these restrictions were spread progressively in other parts of the world involving greater and greater numbers of both developed and developing countries.[2/] The U.S. government has a choice to make: should it continue to be the leader in spreading protectionism and in the contraction of the world economy implied thereby, or should it reverse its position and become the leader for freer trade?

Third, U.S. protectionism tends to thwart the export-led growth of developing countries, of which an increasing number are becoming trade partners of the U.S. Up to the end of World War II, industrialization was considered strictly as a phenomenon of the Western World with its protestant ethic.[3/] But, history has since proved otherwise. Examples are the Republic of Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, and other so-called newly industrializing countries (NICs). In the environment of global recessions during the 1970s, fourteen developing countries sustained over 10% of annual growth in their industrial sector If this trend develops further, more developing countries may be added to the list during the coming decades including ASEAN countries. Foreign trade enables them to import technology, machines, input materials, and management know-how, and to export resource-based and labour-based goods to the U.S. and other developed countries. Obstruction of this growth process by increasing protectionism in the U.S. and other industrial countries would cause developing countries to turn inward and to rely on import substitution policies. However, the experience of the latter policies has often proven an inefficient way of industrialization.[4/] By changing its protectionistic course, the U.S. could avoid forcing this path of growth upon developing countries.

Despite increasing protectionism, the volume of U.S. trade with developing countries has been rising. The share of developing countries in the U.S. imports increased from 26.1% in 1970 to 47.2% in 1980, while the share of developing countries in the U.S. exports increased from 30.0% to 36.8%.[5/] This appears to reflect the increasing capacity for industrialization on the part of developing countries, independent from the growth of developed countries. In the period of 1970-78, the acceleration of the rate of growth in manufactures of developing countries was observed, while those of developed market economies were slowing down. Several studies even consider such development as a possible harbinger of a new growth center of the global economy independent of the Western world.[6] If such an assessment turns out to be correct, the postponement of the required adjustment today in the U.S. will mean even greater accumulated pressures and costs of adjustment tomorrow when the U.S. must deal with greater numbers of NICs and a growing number of product items.

Anti-Growth Effect of Protectionism:

The pace of growth and development in any country (developed or developing) depends not only on new technology, but also on its ability to adjust and to benefit from new products and new processes internally, and to exploit the changing comparative advantage externally. The process of growth requires the abandoning of old industries and occupations, re-allocating labour and capital resources to hi[illegible] age occupations and higher-profit industries, respectively. How[illegible]otectionism has the effect of blocking or postponing the adjustmen[illegible]equired for growth.

Protected industries in the U.S. are usually low-wage, declining branches of manufacturing without much prospect of improving efficiency in the face of competition from abroad. They are not infant industries likely to become competitive after a period of protection. The sooner the adjustment, the higher will be the growth of the U.S. economy just like what happens when an individual firm eliminates an inefficient part of its product line. It is immaterial whether the competition comes from an internal source or an external source. Suppose, for instance, that an introduction of robots replaces some workers. No one would argue for protecting the latter on efficiency grounds. Viewed from this angle, U.S. protectionism loses its logical foundation; Isiah Frank puts it well:

> "A nation's economic growth at any given time is inherently an uneven process in which some firms and industries grow rapidly, others grow slowly, some remain stagnant, and still others decline. This dynamic process implies a constant shift of workers and other resources from declining industries to those higher up on the growth curve. It is surely appropriate for governments to ease this shift of resources on the grounds of both equity and efficiency. But it is not clear why such programs should be provided mainly or exclusively for trade-related employment problems."[7/]

The original purpose of the existing adjustment program was to minimize the costs of adjustment through protection and relocation subsidies. But, in effect, the whole program functions to postpone the necessary adjustment to the detriment of growth in the U.S. economy. This is because the adjustment assistance programs in practice emphasize compensation, while relocation with retraining has been relatively neglected. It is natural under such circumstances for the affected enterprises receiving the subsidies not to hurry to make changes. When such subsidies run out they can demand more import restrictions. This tends to hold back adjustment and thereby slow growth.

U.S. protectionism bears counter-growth effects not only domestically but also internationally. Protectionism in one country has a tendency to propagate itself in other developed countries as defensive reactions. It also reduces opportunities for developing countries to rely on export-led growth strategies which proved effective in the past to NICs. But this is not the whole story; there is also a boomerang effect to be noted resulting from the growing global interdependency. If developing countries suffer from low growth due, at least in part to U.S. protectionism, the U.S. growth will also be adversely affected. Conversely, if developing countries grow at a high rate, the U.S. will benefit. Some estimates suggest that an extra percentage in the growth rate of developing countries would raise industrial countries' growth by about 0.1 to 0.2 percent.[8/] An UNCTAD report states an even higher percentage based on the Link model, "an increase of 1 percent in LDC growth would raise OECD country GNP by about one-third of 1 percent."[9/] Such interdependency in growth seems to become increasingly capable of producing multiplier effects in global growth, and this aspect should be reflected in policy making instead of taking the short-term perspective. U.S. protectionism, if not arrested, can cause a downward spiral of global growth just as an upward spiral could be promoted by dismantling such protectionism.

Anti-Employment Effect of Protectionism

The employment effect appears by far the most sensitive aspect of the whole issue regarding protectionism. This aspect received more attention than any other aspect of the U.S. economy from politicians, labour unions, and academics. Protectionists, mainly unionists, would argue that a major cause of unemployment lies in the import competition from developing countries, hence restrictions of such imports would help solve the unemployment problems. Further, so they argue, it is unfair that American labourers should compete with "sweat-shop" labourers in developing countries. However, it has been repeatedly shown by in-depth studies that the employment effects of trade are miniscule compared with other causes such as economic contractions, technological changes, labour productivity, and so on. One representative study of the U.S. concluded that only 0.2 percent of total manufacturing employment is the extent of the loss in job potential in import-competing industries. Of this, about one-half (0.1%) accounts for the impact of trade with developing countries.[10/] The same study concludes further: "The loss of job potential due to increased labour productivity was about six to nine times as great as the loss due to foreign trade in import-competing industries. Growth of domestic demand alone has had a favourable impact more than eight times as large as the unfavourable effect of trade."[11/] If this finding is valid, then trade-created GDP growth and corresponding employment created by removing protection would more than compensate the employment losses due to imports from developing countries.

These analyses consider only the number of jobs affected, and do not take into account the quality of jobs involved. Protected jobs are low-wage, unskilled occupations, while jobs in export industries pay high-wages and are more skilled in comparison. If, therefore, protectionism reduces U.S. export competitiveness, then it implies keeping low-wage jobs in import-competing industries at the expense of high-wage jobs in export industries. It does not seem to make sense not to reverse such an anomalous situation. Also, import-competition from developing countries seems to provide compelling forces for the U.S. economy to improve by upgrading its employment structure, and should be viewed as an opportunity rather than a threat. Serious consideration should be given to strengthening the policy of retraining and relocating labourers from declining industries.[12/]

Turning now to the employment scene of developing countries. Mounting evidence has accumulated regarding the beneficial employment effect of export-led growth. The studies found that their exports are based on unskilled and low-wage labourers.[13/] This phenomenon together with the position of the declining industries in the U.S. suggests a great opportunity for co-operation to maximize global employment creation. At little (or no) cost to the U.S., a great number of unskilled labourers in the developing world could be given employment if protectionism were reduced or eliminated. More research is needed to quantify employment interdependency, via mutual trade between regions and countries, however one available study suggests that one billion dollars worth of the Republic of Korea's exports to the U.S. would create about 500 jobs in the Republic of Korea while only 75 jobs will be protected if the same bundle of goods were to be produced in the United States instead of importing.[14/]

Anti-Consumer Welfare Effect of Protectionism

By restrictive imports of cheaper goods from abroad, U.S. protectionism hurts American consumers' welfare, especially the poor. Restricted imports from developing countries include processed food items, textile goods, footwear, umbrellas, sporting goods, radios, television sets, etc., items which can be regarded as basic necessities in the American standard of living. It has been reported that "A recent analysis based on a survey of actual retail sales in the U.S. found that imports from the developing countries were as much as 16.3% cheaper than similar U.S.-produced goods. By contrast, imports of similar goods from the other developed countries were only 0.5% cheaper than the American product. The result of buying from developing countries is to save U.S. consumers more than two billion dollars a year."[15/] Hence, the discrimination is tantamount, in effect, to a taxation of the consumers in general to subsidize particular industries losing comparative advantage and their employees.[16/] Incidentally, it also means that protectionism adds to the inflationary tendency which the Reagan administration committed itself to fight against with all means available to it.

Now, turning to developing countries trading with the U.S., export-led growth resulted in providing employment for unskilled workers by the hundreds of thousands. Textile-goods workers and electronics workers are cases in point. If they did not find employment in export or export-related industries, they would have been working in even lower-wage occupations. To wit, their new jobs provided them the wherewithal for a better living than elsewhere. Indeed, in some developing countries, though not all, income distribution appears to remain the same or improve with export-led growth strategies; witness Taiwan, Hong Kong and the Republic of Korea.[18/] U.S. protectionism tends to reduce the opportunities to create employment for low-wage earners in the developing countries trading with her, and hence to block a prime road to assist "the basic needs objectives" of developing countries.

Anti-Market Mechanism Effects of Protectionism:

One of the major characteristics of U.S. protectionism is non-tariff barriers especially import quotas or so-called "voluntary export restraints". Such characteristics bear the nature of countering an effective utilization of market mechanism, a clear contradiction with "Reaganomics" which preaches the virtues of the free market system. The anti-market effects can be observed both within the U.S. and in the developing countries.

To begin with, in the U.S., the individual buyers are not free to buy from the cheapest sources because protectionism forces them to buy from domestic sources charging higher prices, rather than from cheaper foreign sources. To wit, the economic freedom of U.S. importers is curtailed. In the case of import quotas, the government must issue import licences to allocate purchases to privileged importers, a non-market solution of business activities. Under such circumstances, it is natural to expect stepped-up lobbying activities by businessmen in order to seek windfall profits (or economic rent) associated with such licences.

The U.S. protectionism also creates the necessity for developing country trade partners to rely on non-market allocation of exports to the U.S. Import restrictions by a developed country implies export restrictions by the trade partners and usually the government must step in to designate individual exporters and their share of exports. It is a fact that such a policy encourages the formation of export cartels by such government intervention. Anomalous to this effect is the fact that the U.S. appears to abhor the OPEC cartel and to encourage cartels elsewhere. The Reagan administration pronounced its preference in dealing with developing countries by relying more on market mechanism and less on government interventions. Yet, prolonging its own protectionism goes against encouraging market mechanism.

Furthermore, the discriminatory and ad hoc nature of "voluntary export restraints" adds uncertainties to the world trade markets. Periodically, the U.S. government would meet with the government representatives of trading partner countries to agree on the terms of voluntary export restraints on selected products. "Voluntary export restraints" appears to be a misnomer. In a real sense, it is not voluntary but coercive because such an agreement is based on the fear that the United States might otherwise resort to more onerous means, namely a unilateral imposition of quotas. The uneven bargaining power of the U.S. compels developing countries to accept willy-nilly whatever terms that the former deems convenient for the U.S. producers. Exporters are not sure which products will become the next target of the restraints or how much the restrictions would be enforced. If a product from one country is subject to the voluntary export restraints agreement, then other countries exporting the same product may be forced into it for the reason of fairness. Hence, for no fault of its own, a country may be dragged into "voluntary export restraints". The selection of products and of affected countries can by no means be adequately predicted for long-run investment plans on the part of suppliers.

In order to mitigate or eliminate such uncertainties created by protectionism, some economists suggest a treating of the "multilateral safeguard formula".[19] The alleged purpose is to provide mediation procedures known to everyone, to provide a time limit for special restraint action, and to require import ceilings not to fall below recent levels, or to require import ceilings to grow at an agreed rate annually. Such procedures may reduce some degrees of uncertainty but still it would require international surveillance of market shares and put international market forces into a straight jacket, a market intervention of another kind. The result would not be conducive to the dynamic evolution of trade and industrialization according to the newly emerging pattern of comparative advantage, efficiency, and nondiscrimination. Such an arrangement would virtually prohibit the entrance of new suppliers from potential NICs in the future.

Protectionism and Productivity Declines in the U.S.

One of the major long-term ills of the U.S. economy is the slowdown of labour productivity leading to the loss of her competitiveness in the international market. Protectionism is hardly an appropriate policy to counter the productivity slowdown; on the contrary, protectionism exacerbates it because of the anti-trade and anti-growth effects discussed earlier. The observed productivity declines are, however, caused by many other important factors. An appropriate policy, therefore, would be to tackle the problem at its root causes, and thus eliminate the demand for protecting declining industries.

It has been reported that the growth rate of output per man-hour in the U.S. non-farm private sector declined from 2.83 percent (1947-66), to 1.87 percent (1966-73), to 1.02 percent (1972-78), and to -1.2 percent (1979).[20] It is noteworthy that the productivity declines began its descent long before the oil crisis of 1973, and manifold factors caused these declines including the quality of the labour force, reduction of R and D expenditures as a proportion of the GNP, sluggish investment, cyclical consumer demand, and business hindering federal regulations. Research is going on to determine the relative importance of these factors:

but one report concludes that federal regulations are responsible for from 12 to 21 percent of the slowdown in the growth of labour productivity in U.S. manufacturing during 1973-77 as compared to 1958-65. Reductions in the ratio of capital to labour inputs are responsible for about 15 percent of the slowdown. The contribution of the average cyclical impact could fall anywhere in the 0-15 percent range. "The unexplained portion of the slowdown in the rate of productivity growth - often attributed to changes in labour force composition, R and D expenditures, or sectoral output shifts - remains substantial."[21] If these analyses are valid, the long-term policy implications follow logically; namely, the quality of labour should be upgraded, R and D expenditures should increase, investment should be encouraged, anti-cyclical policy should be strengthened, and federal regulations should be reduced. But it is unclear whether the policy of reducing the government budget on education, on R and D expenditures, and of relying more on private initiative would effectively reverse this productivity slowdown.

The apparent decline of labour productivity in the U.S. caused some economists with a sense of history to worry whether the U.S. is about to repeat the fate of 19th-Century Great Britain. Then, British productivity slowed to a zero rate of growth by 1910, having lost her leadership and markets to the United States, Germany, and other countries after 1870.[22] The question today is: Is the U.S. beginning to lose productivity, competitiveness, markets and leadership in industry to Japan and other newly industrialized countries? Can the U.S. remain competitive? What would be a proper policy mix to reverse the trend? The search for the answer is on, but current concern and concensus can be summarized by quoting a U.S. Senate report:

> "The United States faces an urgent problem: our economy is losing its competitive edge. Why is it crucial for the U.S. to remain competitive in world markets? It is crucial in order to provide jobs in expanding industries, to offset inflationary pressures, to sell U.S. products in international markets, and to remain a strong and secure nation in a period of international instability. Our competitive stagnation threatens both our economic health and our national security."[23]

From the earlier discussion, it is clear that a reversal of the increasing protectionism in the U.S. would be a positive step forward in improving U.S. competitiveness in the world market and at the same time help continue the growth of developing countries.

1/ Such restructuring serves the long-term interests of the U.S. at the same time as will become evident in the following discussion.

2/ For a concise history of this development, see B. Nowzad, "The Rise in Protectionism," International Monetary Fund, Pamphlet Series No. 24, Washington, D.C. 1978.

3/ Max Weber, The Protestant Ethic and the Spirit of Capitalism New York: Charles Scribner's Sons, 1956.

4/ I.M.D. Little, T. Scitovsky and M. Scott: Industry and Trade in Some Developing Countries London, 1970.

Anne O. Krueger, Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences, Cambridge, Mass. 1978.

5/ U.S. Bureau of the Census. Highlights of the U S. Export and Import Trade, FT 990, December 1980 (Washington, D.C. USGPO 1981)

6/ For example, see World Bank, World Development Report 1981, pp. 111-112; UNCTAD, Trade and Development Report 1981, pp. 4-5: The Brandt Report, pp. 66-67; Committee for Development Planning, Report on 16th Session (7-16 January 1980), Economic and Social Council, Official Records 1980, Supplement No. 2, p. 7: and ECE, "Changes in Foreign Trade Trends in the 1970s and Some Long-Term Implications," EC.AD(XVII)/AC.1/R.3, 7 August 1981, pp. 2 and 29.

7/ "Trade Policy Issues for the Developing Countries in the 1980s", World Bank Staff Working Paper Series No. 478, August 1981. P.31.

8/ The World Bank, World Development Report 1981, pp. 111-112.

9/ Richard Jolly, "Mutual Interests and the Implications for Reform of the International Economic Order", in S. Grassman and E. Lundberg (eds.), The World Economic Order, Past, and Present, London: the MacMillan Press, 1981. p.574.

10/ Charles R. Frank, Foreign Trade and Domestic Aid, Brookings Institution, Washington, D.C., 1977, pp. 36 and 38.

11/ Ibid., p. 36.
A more recent study revealed that in developed countries (EEC, the U.S. and Japan combined) the total number of jobs created by the expansion of their exports to developing countries during the 1970-78 period, is about three times as large as the number displaced by imports from developing countries. See, J.M. Finger, "Industrial Country Policy and Adjustment to Imports from Developing Countries" World Bank Staff Working Paper No. 470, July 1981, p.11.

12/ A 1978 study by the U.S. General Accounting Office revealed that only 4 percent of unemployed receiving trade adjustment assistance applied for government retraining programs. Isaiah Frank, "Trade Policy Issues for the Developing Countries in the 1980s", World Bank Staff Working Paper No. 478, August 1981, p.30.

13/ Studies in Brazil, Chile, Colombia, India, Indonesia, Ivory Coast, Kenya, Pakistan, Republic of Korea, Thailand, Tunisia, and Uruguay, converge toward the same conclusion. These studies were sponsored by the National Bureau of Economic Research (U.S.) under a project on Alternative Trade Strategies and Employment.

14/ Y. Lim, "U.S.-Korea Trade and the Pacific Community", Paper presented at Workshop on Pacific Community, May 4-6, 1981, Seoul, Republic of Korea.

15/ Edward Heath, former British Prime Minister, "Global Interdependence Demands Global Cooperation", Development and Cooperation, May 1981, pp. 4-5. This article does not cite the original source of the information, but apparently, he is quoting a background paper supporting the Brandt Report. Mr. Heath was a member of the Brandt Commission.

16/ A question arises then: Why would not the consumers so adversely affected by protectionism voice their interests in order to influence policy making? The answer lies in the political configuration of the American society; namely, consumers are not well organized but their interests are diffused while labour unions are strong in their lobbying power especially in those industries losing productivity and competitiveness. For this conclusion, see Robert E. Baldwin, "U.S. Political Pressures Against Adjustment to Greater Imports", paper prepared for the Eleventh Pacific Trade and Development Conference, 1980. For a new interpretation of the issue, see, Douglas R. Nelson, "The Political Structure of the New Protectionism", World Bank Staff Working Paper No. 471, July 1981, p. 15.

17/ Presumably in agriculture or traditional informal sector where productivity is abysmally low. The process of labour relocation in this manner is well analyzed in a famous article: See W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour", The Manchester School of Economic and Social Studies, (May 1954) pp. 139-191.

18/ For a discussion of income distribution and industrialization on Taiwan and the Republic of Korea, see H. Chenery, et. al. (eds.), Redistribution with Growth, Oxford University Press, 1974, pp. 280-290; John C. H. Fei, Growth with Equity: The Taiwan Case, Oxford University Press, 1979; on Hong Kong, see S. C. Chow and G. F. Papanek, "Laissez-faire, Growth and Equity - Hong Kong", Economic Journal, June 1981, pp. 466-485.

19/ H. B. Malmgren, "The Impact of the Developed Countries", in P. Streeten (ed.), Trade Strategies for Development, John Wiley, New York, 1973, and also his "Trade Policies of the Developed Countries for the Next Decade", in J. N. Bhagwati, The New International Economic Order: The North-South Debate, MIT Press, Cambridge, Mass., 1977, pp. 219-235.

20/ G. B. Christainsen and R. H. Haveman, "Public Regulations and the Slowdown in Productivity Growth", American Economic Review, May 1981, p. 321.

21/ G.B. Christainsen and R.H. Haveman, "Public Regulations and the Slowdown in Productivity Growth", American Economic Review, May 1981, p. 324.

22/ Moses Abramovitz, "Welfare Quandaries and Productivity Concerns", American Economic Review, March 1981, p.10.

23/ U.S. Senate, Committee on Finance, Subcommittee on International Trade, Conference on U.S. Competitiveness: Can the United States Remain Competitive? (The Proceedings of the Conference on U.S. Competitiveness, held April 25-26, 1980 and co-sponsored by the New York Stock Exchange, Harvard University, and the Subcommittee on International Trade, Committee on Finance, United States Senate), U.S. Government Printing Office, Washington, D.C., August 1980, p.1.

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