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CHANGING WORLD TRADE ENVIRONMENT AND NEW POLITICAL ECONOMICS

by
Jang-Hee Yoo

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Korea Institute for International Economic Policy

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Ⅰ. Introduction

The world economy is changing at a surprisingly rapid speed. The communist/socialist regime, which has maintained stability over the past 70 years since the Bolshevik revolution, is now going through dissolution owing to ideological incoherence. The Soviet economy, suffering from a severe material shortage which was particularly acute in the 80's, has been losing its leadership role in the communist/socialist economy, which led to the birth of *Perestroika*. Moreover, a similar wave has hit Eastern Europe where the abandonment of the communist system has prevailed.

Nevertheless, the apparent collapse of the communist/socialist regime does not necessarily mean a landslide victory on the part of the capitalist regime. There is uncertainty as to whether there are many capitalist countries strictly following the principles of accumulation of social wealth through private ownership, market autonomy, and unregulated business activity, which then is redistributed appropriately across various social classes. The principle of private ownership has been tainted by numerous restrictions, while autonomous economic behavior of individuals has been often unachievable due to regulations frequently aimed at preserving the *status quo* of government power. The profit-seeking behavior of the firm has also been subject to domestic and international rules and regulations which serve to restrict com petition. It may not be an exaggeration to claim that the total number of violations of capitalist principles among the capitalist countries, on the whole, does not differ very much from those taking place in the communist/socialist countries. In fact, ideological incoherence may be even larger in capitalist countries if the unequal distribution of social wealth is additionally included in the set of violations.

Deep concern over the incoherence in the capitalist regime is evident from the on-going process of the Uruguay Round. Although fairness and equality have been touted as the main objectives of the international economic order, these principles have not been upheld with regards to the international trade of goods and services among capitalist countries. Thus, there is a growing consensus that new international rules must be established to correct these incoherences, resulting in the initiation of the Uruguay Round, which is currently waiting for the final approval from participating countries.

The objective of this paper is four-fold. First, the characteristics of current international trade in the capitalist regime and their implications will be analyzed without resorting to the conventional comparative advantage or the factor endowment theory. Second, expected changes in the international capitalist market under the new world economic environment will be illustrated. Third, the implication of recent world economic developments such as economic integration, regionalism, formation of free trade areas, and economic cooperation among the industrial powers, like G-7, will be studied in light of the first two objectives. Finally, from the standpoint of these recent economic developments, we shed light on the kind of adjustments required for those countries whose economic developments have been engineered on the basis of the outward-looking economic growth model.

Ⅱ. Overview of Traditional Trade Theory

In the academic circle, many international economists have been questioning the capability of the Heckscher-Ohlin theory or the comparative advantage theory to explain the reality of international economic activities.

The classical trade theory proposed by Ricardo and Mill in the 19th century posits that the flow of import and export is simply determined by the comparative advantage of a country in its production technology (or productivity). The neoclassical theory of Heckscher-Ohlin, going one step further, postulates that trade among countries is a result of the different factor endowment possessed by each country rather than the difference in potential productivity. In particular, the relative abundance of labor or capital leads to the export of labor-intensive or capital-intensive goods, respectively.

A positive effect of free trade is the elimination of differences in factor prices between exporting and importing countries. For instance, the price of labor would rise in a labor-abundant country as a result of producing and exporting labor-intensive goods, while the price of capital would decline. At the same time, since a capital-rich country produces and exports capital-intensive goods, the factor prices in this country would move in the opposite direction, resulting in the convergence of factor prices between the two countries.

Another frequently cited advantage of free trade is that it can achieve the equal distribution of income within a country. By facilitating the factor replacement process, free trade should result in the equalization of internal factor prices through the fall or rise of over- or under-supplied factor prices, respectively. In other words, the difference in income per unit of factors within the country would eventually disappear.

Thirdly, it is often argued that free trade enables both exporting and importing countries to achieve high economic growth simultaneously. Since a country is able to import the scarce factor relatively cheaply, it can raise its productivity and production capacity. Incidentally, therefore, the neoclassical theory claims that the factor endowment model is the cornerstone of economic development for the underdeveloped country lacking capital and technology.

It is now well-known that free trade based on the classical or neoclassical theory of Ricardo or Heckscher-Ohlin is neither adequate for explaining the reality of the international trade environment nor useful for establishing rules. Many countries have been imposing restrictions on free trade through various com mercial policies. Moreover, frequent incidences of bilateral and multilateral trade frictions have been observed as a result of these restrictions on free trade.

A typical form of restriction imposed on free trade is through tariffs. According to the Stolper-Samuelson theorem, the real income of the relatively scarce factor in the domestic country can be raised by imposing tariffs on the factor-intensive products of the foreign country. Specifically, consider a situation where country A is capital-poor, whereas country B is capital-rich. If country B imposes a tariff on the labor-intensive good X, the relative domestic price ratio between good X and good Y (capital-intensive good) will increase. This will result in higher real income for labor as the tariff-induced rise in P_X/P_Y leads to the increased production of good X and reduced production of good Y. The increase in real income for labor will be reinforced by the intensified replacement of labor by capital and subsequent increase in labor productivity, which arises from the increase in the ratio between wage and price of capital (w/r) associated with the increase in Px/Py. The effect of tariff on good X in country B can be succinctly described as follows:

$$(P_X/P_Y)\uparrow \rightarrow (w/r)\uparrow \rightarrow (K/L)\uparrow$$

The above implies that a tariff on relatively scarce labor-intensive products would raise the total labor income in country B. Despite the fact that the rise in labor productivity gives rise to the increased proportion of labor income, comprising the total GDP in country B, the tariff-induced reduction in GDP suggests the decline of imported capital. Several real economic behaviors are consistent with the Stolper-Samuelson theorem. For example, the relatively high labor income and the labor union's attempt to impose tariffs on labor-intensive imported products from capital-rich industrial countries convincingly support the Stolper-Samuelson theorem.

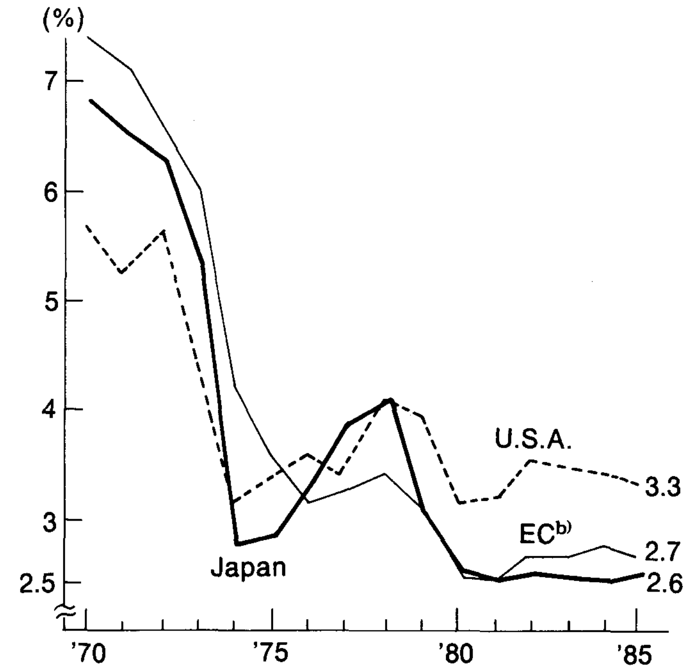
It has been conventionally accepted in the world economic community that each country places a certain level of financial burden on foreign imports, in the form of tariffs, or restrictive nontariff barriers, to prevent them from penetrating the domestic market. Trade barriers, both in tariff and nontariff forms, are usually implemented for the purpose of protecting domestic industries from foreign competition. Alternatively, it can be plausibly deduced that trade barriers, particularly in a country experiencing rapid growth through external trade opportunities, are intentionally placed on foreign imports in order to achieve increased domestic labor income. As will be discussed in section IV, a capital-rich country, having realized that tariffs are an insufficient measure to carry out the protection of the domestic market, will intensify its use of nontariff barriers to further restrict imports.

A representative form of nontariff trade barriers are voluntary export quota restrictions, international cartels, anti-dumping, and economic integration such as regional blocs, tariff treaties, and discriminatory free trade areas (FTA). As will be shown in the following section, these tariff or nontariff barriers imposed by capital-rich countries, with the original purpose of protecting domestic industries, have backfired. This has resulted in low GDP growth relative to the growth that would have been attained under a perfect free trade regime, and ironically, has created the adverse outcome of reduced capital stock. In other words, tariff and/or nontariff barriers in capital-rich countries not only cause the domestic economy to backslide, but are detrimental to capital accumulation as well.

Ⅲ. Problems in International Economic Order

The perception that tariff as well as other nontariff trade barriers were major factors adversely affecting international trade led to a series of GATT rounds calling for the reduction of such barriers. As a result, each country agreed to reduce its tariffs by 35% from the contemporaneous level at the Kennedy Round in 1962 (the 1974 U.S. Trade Act gave the U.S. president the authority to reduce tariffs by a maximum of 60%, along with the authority to

Figure 1. Trends In Customs Duty Ratio (1970-1986)[a]



[a] Ratio=total duty income/total volume of imports.
[b] For imports from nonmember countries.
Source: Japan Institute for Social and Economic Affairs, KEIZAI KOHO CENTER, *Japan: An International Comparison*, 1989, p.31.

abolish tariffs of less than 5%). At the Tokyo Round held in 1979, major trading partners agreed to additional tariff cuts, resulting in a 31% reduction for the U.S., 27% for the EC, and 28% for Japan over a subsequent 8-year period. In order to prevent the proliferation of nontariff-related regulations, agreements were reached in such areas as government purchases, imposition of countervailing taxes on items in violation of the anti-dumping code, and provision of GSP to developing countries for areas other than textiles, shoes, electronics, and steel industries.

Despite these two successive attempts to reduce the tariff level, world trade has become progressively more confusing due to the expansion of nontariff barriers and government protection of domestic agriculture. The following issues illustrate the problems associated with each nontariff trade barrier.

Multi-Fiber Arrangements (MFA)

The multi-fiber arrangement, which places a quota on textile exports, is the representative form of nontariff barriers. The textile industry is often a strategic industry, at the early stage of industrialization, in developing countries endowed with an abundant labor force. On the other hand, developed countries tend to protect the domestic textile industry by categorizing it as a sunset industry, so to speak. The purpose of the MFA, established by 40 industrial countries in 1974, was to prevent the adverse effect on domestic textile industries caused by rapidly increasing inflow of textiles from developing countries. As a measure for placing quantitative restrictions on textile imports, it specifies a certain percentage increase allowed for each import annually, including the 'swing,' the 'carry-over,' and the 'carry-forward,' collectively.

The MFA not only harmed the most favored nation (MFN) principle under the GATT, but is also a direct violation of GATT Article 19. Moreover, as it has worked to disrupt the market, the very purpose of activating the MFA in the first place, the MFA has been subject to continuous debate. It has been reported that the implementation of the MFA by industrial countries over the past 15 years has caused a substantial amount of adverse effects on developing countries that export textile goods, especially the newly emerging exporting countries.

Anti-Dumping Duties

The anti-dumping code is another form of nontariff restrictions created by industrial countries. GATT Article 6 specifies the conditions under which a country can impose an anti-dumping duty. First, the exporting country is subject to anti-dumping taxation if the domestic industry of the importing country has been either harmed or considered to be in an environment where harm is likely to occur, due to the lower than 'normal' price of exports. Second, dumping is said to occur if the price of exports is less than the prevailing consumer price in the exporting country or if it is less than the comparable price of other exporting countries, since direct comparison with the consumer price of the exporting country is impossible. If the export price of other countries is unavailable, the dumping price is the one that is less than the 'rationally' estimated production cost per unit.

With a large scope of arbitrary interpretation, exporting countries, which are mainly developing countries, suffered from one-sided disadvantages in the 1980s with respect to *ad hoc* decisions on dumping, timing of dumping investigations and impositions of anti-dumping duties. Table 1 reports, as an example, the frequency of anti-dumping appeals for major commodities within the EC, in the 1980s.

Subsidies & Countervailing Duties

It has been a customary practice that the government of a country where trade (especially export) constitutes an important part of the economic development provides government subsidies for exports, or levies countervailing duties on imports for the purpose of enhancing the competitiveness of the domestic industry. But since the decision is often arbitrarily made on whether to implement these measures, there have been many cases in which these governments even change the structure of the domestic industry or damage the competing industry in the recipient countries. The GATT, of course, imposes a certain limitation and obligation on the use of government subsidies and allows the other party to make retaliatory actions in the form of countervailing duties.

Countervailing duties have most often been used by developed countries, and their occasional excessive exploitation has given rise to a situation similar to a closed economy. It is now well-known that developing countries attempting to explore markets in developed countries are the ones which suffer most from the abuse of countervailing duties.

Table 1. The "Who's Who" in EC Antidumping Enforcement 1980-1989 (Preliminary)

Parent Companies	*Countries of Origin*[a]	*Frequency %*[b]
ISIC 3511: Industrial chemicals (93 cases)		
Montedison	Italy	23.7
ENI	Italy	21.5
Pechiney	France	19.4
Rhone-Poulenc	France	17.2
Alusuisse	Switzerland	15.1
Brit. Petroleum	U.K.	15.1
Hoechst	Germany	12.9
ICI	U.K.	12.9
ISIC 3513: Synthetic chemical products (31 cases)		
Hoechst	Germany	87.1
Montedison	Italy	71.0
Rhone-Poulenc	France	51.6
Du Pont	U.S.A	48.4
ENI	Italy	45.2
Akzo	Netherland	32.3
Bayer	Germany	29.0
ICI	U.K.	29.0
ISIC 3710: Iron and steel (41 cases)		
Arbed	Luxembourg	39.0
Thyssen	Germany	36.6
Salzgitter	Germany	22.0
Italsider	Italy	14.6
Hoogovens	Netherland	12.2
Usinor	France	12.2
ISIC 3832: Radios and TVs (10 cases)		
Philips	Netherland	70.0
Thomson	France	70.0
Nokia	Finland	50.0
AEG	Germany	20.0
Motorola	U.S.A	10.0
Siemens	Germany	10.0

[a] Country of origin of the parent company.
[b] Number of initial antidumping cases (i.e., excluding reviews).
Source: *EC Official Journal*, various issues, "Who Owns Whom," various years, and Messerlin (1991).

Voluntary Export Restrictions (VERs)

Voluntary Export Restrictions are also used, primarily by industrial countries, to force the exporting countries to voluntarily limit their annual export quantities. Unlike other regulations, the final decision on the implementation of VERs lies in the exporting

Table 2. Effects of Some Major VERs In Developed Countries[a]

	Clothes		*Automobiles*	*Steel*
	USA 1980	*EC 1980*	*USA 1984*	*USA 1985*
(1) Increased payments on imported goods, \$ million	988	1,050	1,778	1,530
(2) Loss of consumer surplus, \$ million	408	289[b]	229	455
(3) Resource cost of producing the additional quantity domestically, \$ million	113	70	185	7
(4) Cost to the national economy in the protecting country (welfare cost), \$ million,(1)+(2)+(3)	1,509	1,409	2,192	1,992
(5) Jobs saved through protection, thousands	8.9	11.3	45.0	28.0
(6) Welfare cost per job saved, \$ thousand,(4)/(5)	169.6	124.7	48.7	71.1
(7) Average labor compensation, \$ thousand,(annual)	12.6	13.5	38.1	42.4
(8) Ratio of welfare cost to average compensation,(6)/(7)	13.5	9.2	1.3	1.7
(9) Lost revenues for exporters, \$ million	9,328	7,460	6,050	1,508
(10) Ratio of increased payments on imported goods to lost revenues	0.11	0.14	0.29	1.01

[a] U.S. dollar estimates are evaluated at current prices for the years indicated.
[b] Foregone tariff revenues, due to the quota introduction, are not included.
Source: Dominick Salvatore, "The New Protectionist Threat to World Welfare," *North-Holland*, 1987, p. 495.

countries. Thus, the importing countries often tend to press the exporting countries to undertake VERs by threatening them with anti-dumping actions. The implementation of VERs, however, does not necessarily benefit the relevant industries in the importing countries. Rather, the domestic consumers in the importing countries suffer due to the higher import prices. Moreover, the small exporting countries, which do not exercise the VERs, may increase their market shares in the importing countries, or the exporting countries may take the indirect routes into the domestic markets. According to Balassa and Michalopoulos (1987), VERs on the U.S. clothing industry resulted in the loss of consumer surplus of over $1.5 billion in one year (see Table 2).

Ⅳ. The New Political Economy of Protectionism

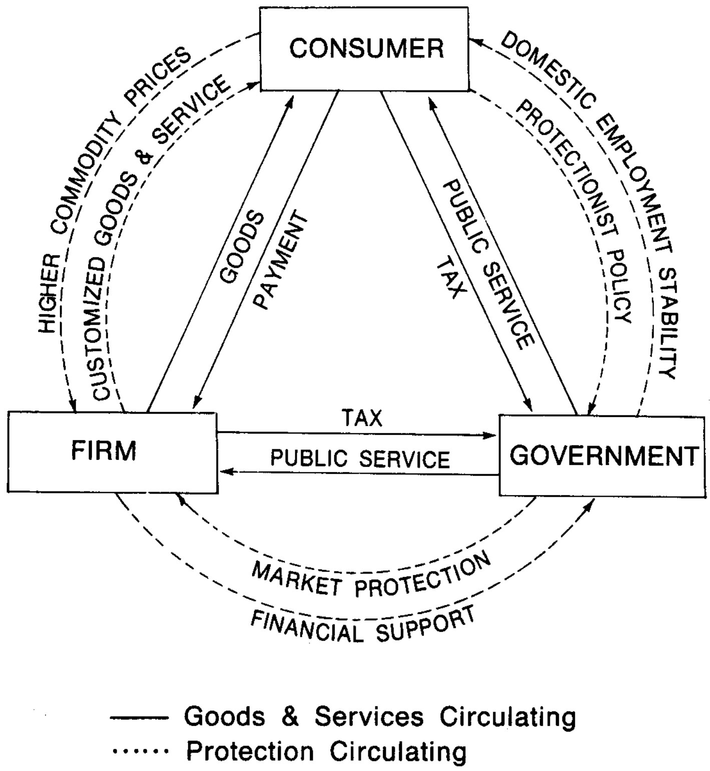
The problems associated with tariff and nontariff trade barriers were discussed in sections II and III. Using the Stolper-Samuelson theorem, tariffs were shown to reduce the size of GDP as well as the capital stock in the tariff-imposing country, whereas nontariff barriers were shown to disrupt the development of domestic industries, causing trade frictions among countries. Considering the fact that the stated goals of the capitalist economy are freedom, growth, and profit maximization and the fact that the various forms of tariff and nontariff barriers initiated by industrial countries have been adversely affecting the world capitalist economic system, an objective and unbiased reconsideration of the capitalist regime must follow.

So far, there have been few empirical studies examining the extent of the negative impacts caused by tariff and nontariff trade barriers. Some authors including Brander-Spencer (1984), Dixit-Kyle (1985), Bagwell-Staiger (1989), and Harries (1989) have merely attempted to analyze, using the game-theory approach, the extent to which imperfect competition induced by protectionist policy gives rise to the transfer of rent across borders, given the objective of the government implementing that policy. Recently, attempts to explain the problems from the standpoint of political economics have received increasing attention. Anderson-Baldwin (1981) and Frey (1984) tried to explain the underlying causes of protectionistic measures and the subsequent effects on the interrelationship between government intervention and firm structure. Subsequent works by Baldwin (1982), Magee-Brock (1983), and Anelung (1989) emphasized the crucial role played by the government, which is absent in the existing Pigou theory, where the government role is only the provision of the external environment. They argued that the economy has become intimately linked with the politics in today's capitalist market. The government, in particular, plays a principal role in international trade relations by supplying measures of protection. Namely, there exists an additional market, besides the exchange of commodities, in which protection is supplied and demanded. Indeed, a variety of industrial and trade policies exist in countries whose GNP is heavily dependent on trade (see Mussa (1986) and Sell (1988)).

Unlike the traditional economic theory where only goods and services are traded among the three principal players (consumers, firms, government), public economics posits that there is an additional commodity called protection circulating among the three players besides goods and services. In an open economic model, a degree of protection determines the intimacy of domestic economy with the international sector. In a partially open economy, as pointed out in Figure 2, the government sells market protection to the firm in return for financial support so as to maintain its political superiority. In relation to the consumer, the government rationalizes the protectionist policy by linking it with domestic employment stability. However, the flow of protection between consumers and firms is unclear. Theoretically speaking, the domestic firm can better serve the domestic consumer through product differentiations such as providing customized goods and services, and in turn, be rewarded with higher commodity prices. But, in reality, it is understood that the flow of protection between consumers and firms ends at some point in time.

What then is the underlying reason for the protectionist policy

Figure 2. Intimacy of Domestic Economy among the Three Principal Players



which disrupts the international trade order as well as domestic market? Caves (1976), Baldwin (1982), and Wagner (1987) suggested three models that could plausibly provide answers to the above question: the interest-group model, adding-machine model, and national-policy model.

The interest-group model suggests that lobbying activities by a group of firms are the source of protectionist barriers. According to this model, the smaller the number of firms in an industry, the easier it is to erect barriers. This is so because the general public suffer from the barrier but do not show much interest in it, whereas the beneficiaries of the barrier devote a great amount of energy in lobbying activities (see Becker (1983)). Moreover, the political group, understanding the situation, often agree to establish the barrier. Since the barrier, once established, is more likely to function as a public good, it can be established with relatively low costs for industries with a small number of firms, but can result in enormous benefits. Consequently, trade barriers are most likely set up in industries with a high degree of market concentration (see Tullock (1986, 1987)).

The adding-machine model is centered around the case of the policymaker campaigning rigorously for reelection. In this case, the government is more likely to protect industries which employ a large portion of the labor market. If labor is unionized, the government is more likely to set up a trade barrier since the labor union has the political power to reelect the incumbent policymakers.

The third model is the national-policy model which postulates that the more nationalistic a country is, the more likely it is to set up a trade barrier. In contradiction to the theory of comparative advantage, the nationalistic country often chooses to attain the trade balance of each industry as its objective function. For example, despite being a developed country, Japan's primary objective until recently has been the rapid accomplishment of its national goal of becoming an economic superpower. A strong position held by

Japanese policymakers on the protection of technology has even led to the restriction of exports of high-tech commodities.[1] As pointed out by Johnson (1965), protectionistic behavior driven by strong nationalistic motives sacrifices consumers' welfare for the protection of producers' benefits. Moreover, a substantial portion of benefits enjoyed by the producers tend to be insurance costs, shielding them from the risk which is unfairly taken care of. It has

Table 3. Effects of Exogenous Variables in Each Model.
(Endogenous Variable=Market Protection Rate)

Interest Group		*Government Policy*
1.Industry Concentration Ratio (+)	1.Contribution in Terms of Employment in Region (+)	1.Labor Intensiveness in Industry (+)
2.Firm's Output (+)	2.Number of Employees in Industry (+)	2.R & D (+)
3.Number of Firms in Industry (−)		3.Value Added Per Unit of Labor (−)
4.Export/Output Ratio in Industry (−)		4.Wage/Output Ratio (−)
5.Industry Value Added Rate (−)		5.Average Wage Per Unit of Labor (+)
		6.Export/Output Ratio (+)
		7.Output Growth Rate (−)
		8.Employment Growth Rate (−)
		9.Industry Output (+)

Source: Amelung (1989), Summary of pp. 522-23.
Note: The market protection rate is an indexed value of financial and tax privileges given to the imported raw materials and intermediate goods.

[1] The Japanese government prohibits domestic exporters from selling to foreigners about 200 "special" items that carry the most sophisticated production technologies.

been reported that the degree of government protection is high in industries with low domestic growth rate, low employment rates, and high dependency rate on imports. Table 3 summarizes protectionist policies based upon the above three models.

From the aforementioned analyses, it has been shown that tariff and nontariff trade barriers tend to hinder the growth of the economy, both internally and externally. Nonetheless, a variety of political-economic factors has led to the inevitable strengthening of these barriers in many countries. The world economy now faces a political economic environment which is greatly influenced by various interest groups (eg. institutions controlled by multinational corporations). Also, government policy decisions are enormously affected by interests of potential voters as the democratization movement prevails in many parts of the world. The recent tendency toward nationalism makes it less likely for protectionism to disappear, in spite of attempts to establish free and fair trade through the Uruguay Round. In particular, the regional liberalization attempt among industrial countries through economic integration or the establishment of a regional bloc is likely to strengthen trade barriers against countries outside the region.[2]

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[2] According to a recent EC announcement, EC member governments, including France, have been facing mounting pressure from the industrial sector to strengthen protectionist policies against Japan. In particular, the automobile and the electronics industry, which suffered severely from Japanese competitors, were reported to have

V. Emergence of a New System

The Uruguay Round is a worldwide attempt to establish a new world economic order based on the principle of fair and free trade. However, a successful conclusion of the Uruguay Round is doubtful due to the conflicting interests of various countries. Even if the Round is successfully completed, the termination of even deepening protectionism might not be achieved because the GATT has almost no political authority to prevent major trading partners from behaving independently. These powers can lay claims to such factors as sovereignty, political limitation, cultural peculiarity, or economic inevitability.

In the future, trade volume is expected to grow substantially relative to the GNP and take a significant part of the GNP of domestic economy. Moreover, through revolution in production and technology, the industrial economy is expected to go through a

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intensified their pressure to the EC commission for stronger import restriction. The French government announced that President Mitterrand received demand from the automobile association in late April to tighten the import restriction above the current level after the European single market is established.

In late April of this year, the EC commission accepted the proposal by the European automobile producers' association (ACEA) to restrict Japanese automobile imports even after the EC integration in 1992. Also, representatives of 5 major European electronics firms are reported to have consulted with the EC commissioner in late April concerning the possible policy response against the U.S. and Japanese infiltration into the European market.

period of sustained structural change. From the standpoint of pure economics, this implies the balanced growth of the world economy as a whole. However, from the perspective of political economics, it attests to the emergence of nationalism by trying to protect domestic interests and technologies from outsiders. If the latter view is correct, not only will the existing economic gap between developed and developing countries likely widen, but regional economies may face a period of serious trade frictions over market shares and protectionist measures. A deteriorated economic environment may occur even if the Uruguay Round negotiations are successfully concluded.

Mydral (1970) and Todaro (1991) predicted the deterioration of the world trade environment. They proclaimed that the traditional trade theory is not a sufficient basis for the current international trade order. Rather, they contended that one must acknowledge the restrictions arising from trade barriers in the real economy, and attempt to look for a new economic order within that context.

Mydral's and Todaro's major points are as follows. First, in spite of efforts by the GATT, industrial powers will manipulate trade barriers according to their needs. Second, the balanced income distribution among the various social classes, as the traditional free trade theory posits, is simply unrealistic. This is consistent with the argument made by Becker (1983) and Tullock (1986, 1987) from the standpoint of political economics. Third, industrial powers will be unwilling to give exceptions to those countries who are burdened with heavy foreign debt, lack resources, and suffer from inconsistent domestic economic policies, despite the fact that exceptions to the rule are needed to achieve a fair and rational establishment of new economic order.

One may herewith conceive a new economic system in which a complementary network is formed among those countries which are heavily dependent on international trade, and maintain a similar economic development level. A close relationship is required for these countries to achieve trade-led economic growth and to avoid pressures from industrial powers.

However, a complete understanding about the quality and quantity of tradable goods must precede the formation of the new system. We have often seen the case in which some commodities produced by a developing country, at a comparable quality and competitive price relative to the products made in industrial countries, are not treated fairly in the international market owing to misconceptions on these products.[3] A complete understanding of tradable goods and raw materials from lesser developing countries would lead to an environment where free trade prevails among

[3] Even though agricultural products from Indonesia are better than U.S. products in terms of quality and price, there exists a negative preconception regarding Indonesian products in consumers' mind along with the belief that the U.S. products are safer.

developing countries with no trade barriers or pressures caused by trade surpluses or deficits.

Second, developing countries can form a collective power and negotiate as a group against industrial powers. This will be an effective way for developing countries to compete against industrial economic blocs. In addition, as a group, this can check to some extent the domination of industrial countries in the Uruguay Round, FTA and EC integration processes. In fact, the recent Malaysian proposal for the establishment of the East Asia Economic Caucus (EAEC), although it contains some compositional problems, or the Andes Common Market (ANCOM) by five Latin American countries (Bolivia, Chile, Columbia, Ecuador, and Peru) which guarantees free exchange of resources and products, under the reciprocity principle, can be interpreted as an attempt within this context.

Third, consideration must be given to increase the income of the working class, particularly labor. To achieve this objective, one must bear in mind that a country should keep the door open for imports of necessary goods, from industrial countries, which are not produced in the domestic economy such as pharmaceutical, telecommunication, and chemical products.

Finally, a constructive international trade order should be established for the development of capitalism, and measures should be sought to promote cooperation rather than tension between developed and underdeveloped countries. Government trade policies should not be dominated by the interest of specific groups or by simple domestic public opinion. Therefore, industrial countries should be more sensitive and cautious in dealing with developing countries before they put pressures on for market openings. Consider the fact that the long-run economic growth of developed countries is significantly correlated with the growth of developing countries. Also, consider that most developing countries are burdened with heavy foreign debt which will have to be serviced by their foreign exchange earnings. The most plausible model in these circumstances may be the income-threshold model. According to this model, industrial countries should refrain from exerting unilateral pressure on developing countries for market liberalization until their per capita GDP reaches a certain level. Meanwhile, developing economies should gradually open their markets com mensurate with their per capita GDP. While it is up to the developing countries to choose the appropriate combination between market opening measures and protectionist policies, no single developing country would intentionally try to delay its economic growth. Thus, most developing countries would be willing to lift their protectionist barriers as their economies grow. Concurrently, industrial countries should promote cooperation by voluntarily abolishing existing tariff and nontariff barriers. Undoubtedly, the adoption of the income-threshold model and the abolishment of tariff or nontariff barriers in industrial countries will require continuing in-depth study and evaluation. The OECD, which is made up of industrial countries and whose goal lies in the pursuit of stable world economic growth, could take initiatives to pave the way toward such a cooperative world economic order.

Ⅵ. Concluding Remarks

As trade expands, the conflict of interests among countries involved will increase despite the current efforts to improve the world trade environment through the Uruguay Round. Moreover, the unique political, cultural, and economic characteristics of each individual country will too often steer the domestic system in such a way as to become a hindrance in world trade within a certain regulatory system. Therefore, protectionist barriers are expected to remain in the future world trade order with only a slight decline in trade frictions.

One change in the new trade order expected in this or the next century is the emergence of economic blocs with differing regional and economic characteristics. It is probable to see some blocs formed in the near future by countries with varying development stages (Mexico (NAFTA)). Particularly, economic blocs formed by developing countries will protect their own interests from various economic pressures coming from developed countries.

The ideal of capitalism supports international trade based on freedom, market autonomy, and profit maximization. But if interna tional trade is contaminated by protectionism and trade frictions, the capitalistic trade model is only applicable to a theoretical discussion, with international reality plotting out its own chart.

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