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The development of the world trade and strengthening of protectionism in the world economy in the 1980–90-s

A sign of recession is the declining foreign trade. One might be surprised that when there is industrial over-production, foreign trade declines. There is a tendency for foreign trade to become "one way" traffic with much more exports than imports. Consequently the trade partner who cannot increase its exports becomes short of foreign currency, and has to decrease imports from the country, which wants to export at any cost. In this way, declining imports of a given country limits the exports of this country.

The development of world trade during the 1970–80's

The total world export volume over last 25-year period increased 4 times, but within this trend there were two declines, indicating the recession periods. These two declines seem to be very minor, due to the fact that the main industrial countries (USA, West Germany, Japan) increased their export to the rest of the world by granting credit to the im-

Growth of real imports of goods and services in the OECD area[a])
Percentage changes from previous period[1]

Country	1970	1971	1972	1973	1974	1975	1976	1977
United States	4.3	5.1	11.7	11.9	-2.0	-10.3	18.5	11.1
Japan	21.3	5.8	9.9	24.2	6.2	-9.8	5.2	3.2
Germany	15.6	10.0	5.7	4.2	2.2	-0.6	10.5	3.6
France	7.4	25.7	13.2	14.2	1.9	-9.7	17.4	0.1
United Kingdom	5.3	5.3	9.7	11.8	1.3	-7.1	4.2	1.2
Italy	15.9	24.0	11.4	10.5	2.2	-9.6	15.4	-0.2
Canada	-1.7	7.2	13.8	14.7	11.1	-3.3	8.6	1.7
Total of above countries	9.4	8.0	10.4	12.6	1.9	-7.7	12.3	4.7
Austria	15.9	6.3	12.1	9.6	6.9	-4.6	17.4	8.0
Belgium	12.5	5.3	8.4	19.4	7.5	9.8	11.0	15.4
Denmark	9.3	-0.7	1.5	12.8	-3.8	-4.8	15.6	0.0
Finland	20.3	-0.6	4.2	13.0	6.7	0.6	-2.0	-1.5
Greece	6.2	7.6	15.4	32.2	-16.3	6.3	6.1	8.0
Iceland	27.8	23.0	0.2	18.6	12.8	-12.3	-3.5	20.2
Ireland	2.3	4.7	5.1	19.0	-2.3	-10.2	14.7	13.3
Luxembourg	19.0	6.5	2.8	10.6	5.8	-8.7	0.8	1.6
Netherlands	14.7	5.7	9.1	8.9	-6.8	-3.8	10.4	2.4
Norway	13.6	6.4	-1.0	14.4	4.7	7.0	12.3	3.4
Portugal	0.9	14.5	12.0	12.7	4.8	-25.2	3.4	12.0
Spain	7.0	0.7	24.3	16.7	8.0	-0.9	9.8	-5.5
Sweden	10.4	-3.3	4.0	6.9	9.9	-3.5	9.0	-3.8
Switzerland	13.9	6.2	7.3	6.5	-1.C	-15.4	13.1	9.3
Turkey	-	-	-	10.4	1.7	11.8	24.1	-3.9
Total smaller European countries	12.1	3.8	8.3	12.5	1.6	-4.7	11.0	3.8
Australia	4.8	-0.1	-9.1	20.7	23.6	-15.7	12.1	-0.2
New Zealand	17.3	2.1	6.3	17.9	23.2	-22.0	-2.0	2.4
Total smaller countries	11.6	3.5	7.1	13.0	3.4	-5.9	10.8	3.5
Total OECD	10.0	6.7	9.5	12.7	2.3	-7.2	11.9	4.4
Four major Euro-pean countries	11.1	10.6	9.3	9.5	1.9	-5.9	11.4	1.6
OECD Europe	11.5	7.8	8.9	10.7	1.8	-5.4	11.2	2.5
EEC	11.1	8.7	9.6	10.9	1.2	-5.9	11.1	2.6
Total OECD less the USA	11.8	7.2	8.8	12.9	3.5	-6.4	10.1	2.5

[a]) Aggregates were computed on the basis of 1982 exchange rates.
[1] OECD Economic Outlook, 1988. VI., 179.

Growth of real imports of goods and services in the OECD area[a]) Percentage changes from previous period[2]									
Country	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	11.1	7.0	4.1	-6.0	3.4	-2.2	9.6	23.9	3.9
Japan	3.2	5.1	13.4	-6.2	5.1	1.7	-5.1	11.1	0.1
Germany	3.6	5.5	10.5	3.7	-1.2	-0.1	0.6	5.3	3.7
France	0.1	3.0	10.1	2.5	-2.1	2.6	-2.7	2.8	4.7
United K.	1.2	3.9	10.5	-3.2	-2.6	5.0	5.8	9.8	2.7
Italy	-0.2	8.1	13.8	8.3	-3.8	-0.7	-1.6	11.0	4.7
Canada	1.7	7.4	11.4	4.9	8.5	-15.2	9.0	16.6	8.3
Total above countries	4.7	5.8	9.1	-1.2	1.2	-0.8	2.9	13.5	3.6
Austria	8.0	-1.3	11.8	6.4	-1.5	-3.3	5.7	9.9	6.9
Belgium	15.4	3.7	9.1	0.3	-2.3	1.1	-0.8	6.0	1.0
Denmark	0.0	0.1	5.0	-6.8	-1.7	3.8	1.8	5.5	8.6
Finland	-1.5	3.7	18.4	8.3	-4.7	2.5	3.0	1.0	6.8
Greece	8.0	7.2	7.2	-8.0	3.6	7.0	6.6	0.2	12.8
Iceland	20.2	3.6	2.5	3.0	7.2	-1.1	-5.7	9.3	9.7
Ireland	13.3	15.7	13.9	-4.5	1.7	-3.1	4.7	9.9	2.8
Luxembourg	1.6	5.9	7.1	3.1	-2.8	-0.1	1.9	15.4	6.2
Netherlands	2.4	6.2	6.5	-1.0	-5.8	1.1	3.8	5.1	6.0
Norway	3.4	-13.5	-0.7	3.3	1.5	3.7	0.0	9.5	6.5
Portugal	12.0	1.6	8.7	10.5	3.7	5.4	8.7	2.7	3.9
Spain	-5.5	-1.0	11.4	3.3	-4.2	3.9	-0.6	-1.0	6.2
Sweden	-3.8	-5.5	11.6	0.4	-7.1	4.3	0.4	4.5	8.0
Switzerland	9.3	10.9	6.9	7.2	-1.3	-2.6	4.4	7.1	5.1
Turkey	-3.9	-31.4	-7.9	-4.6	16.5	13.4	12.7	16.5	7.0
Total smaller European countri	3.8	0.3	8.0	1.2	-2.5	1.8	2.1	5.5	5.7
Australia	-0.2	3.4	1.8	5.6	9.2	5.1	-10.2	20.6	4.7
New Zealand	2.4	-5.4	16.7	-3.4	4.6	6.9	-6.0	17.0	-3.4
Total smaller countries	3.5	0.4	7.7	1.4	-1.6	2.1	1.0	6.7	5.4
Total OECD	4.4	4.3	8.7	-0.6	0.5	0.0	2.4	11.7	4.1
Four major European countries	1.6	5.0	10.9	2.6	-2.2	1.5	0.5	6.7	3.9
OECD Europe	2.5	3.0	9.7	2.1	-2.3	1.6	1.2	6.2	4.6
EEC	2.6	4.6	10.1	1.7	-2.5	1.7	0.7	6.0	4.2
Total OECD less the United S.	2.5	3.5	10.2	1.1	-0.4	0.6	0.4	7.9	4.1

[a]) Aggregates were co computed on the basis of 1982 exchange rates.
[1] Ib. id.

porters. At the same time, agricultural and mining products grew only twofold, thereby causing great problems mainly for less developed predominantly agricultural countries.

In the "good old days" between 1963–1973, over a 10-year period, the annual growth in world export was around 9% but between 1973–79 this was 4%, and during the second recession period (1979–84) it went down to 2%. Let's have a closer look at some individual countries. *(Előző oldali tábla. See table before this page.)*

The table above contains import developments of some of the most important countries during the recession year compared to previous and following years. In some countries import has already declined in 1974, but in the case of most countries it happened in 1975. So the "minus signs" concentrated in this year. It is interesting that the decline in imports was much greater, 7,7%, in the bigger Western countries than in the smaller ones where it was only about 4,7 %. *(See this table)*

As it is indicated, during the second recession period, in 1980–81–82, the total import decline was much smaller, around 1%. There are some tentative explanations of the decline in imports during these two recessions. A recession means that industrial production declines, consequently the demand for imported goods (capital goods, consumer goods, alike) also declines. The second possible explanation is that countries introduced import limiting measures, tariffs, but mainly quotas, to defend the home market. And there is a third explanation: because of the oil price explosions, which occurred exactly in the same periods, countries had less foreign currency to pay for imported goods, so they had to cut back their imports.

World market prices – terms of trade

I'm concerned here with price movement, as a result of recession, and not with the oil price explosion. But still, I think it is worth looking at the movement of world market price of crude oil and its price ratio to the export prices of other products.

Between 1953 and 1973 the crude oil price fluctuated around 1,7 dollar/barrel (here only from 1967–1973 between 1,3–2,8), however by 1980 it went up 20 fold, that is to about 34–36 dollars. After the peak it went down in 1986 to 11,5 dollars. But it did not go back to the level of the pre-1974 period. So their price ratio or terms of trade significantly changed in favour of the oil exporting countries. Let's have a closer look at how the recession affected the term of trade during the second recession.

Index number of export prices in international trade 1978–1984[3]

Index of export prices (1978=100%)

	1979	1980	1981	1982	1983	1984
non-oil commodities	115	132	111	93	99	100
Manufactured products	114	127	121	119	114	111

Terms of trade index in relation to manufactured products (1978 = 100%)

	1979	1980	1981	1982	1983	1984
non-oil commodities	101	104	92	78	87	90

We can see on the basis of these information that directly before the 2nd recession (1981-82) the world market prices of non-oil commodities and manufactured increased, indicating the effect of pre-recession up swing. It can also be noticed that the increase of prices in non-oil commodities was slightly greater than that of manufactured goods. But during the recession the decline was greater in non-oil commodities (here are mainly industrial raw materials) than in the prices of manufactured goods.

The strengthening of protectionism (Trade War)

The written and electronic media is full of the topics dealing with the "creeping" protectionism or trade war. Nowadays the expression "trade war" is more widespread than "protectionism".

This relatively new word for the old concept better expresses the essence of the international economic policies of the nations. The older expression protectionism perhaps narrows down the problem to the protection of a group of the national producers from foreign competition. But the new expression "Trade War" implicitly implies two features of the problem. One is, it is a very serious thing if it is called a *war*. Economic war against others is defending the home economy, industry, and employment. The world war also means that as in a real war, there are offensive and defensive movements of troops. The *offensive* is export stimuli, the *defensive* is import restrictions.

As to the *seriousness* of the "trade war", let me quote some examples of the 1980's.

"We are a colony again, this time of Japan" – was the title of a newspaper article dealing with an interview with Lee Iacocca, the chairman of Chrysler; who said: "We send Japan low-value soybeans, wheat, corn, coal and cotton. They send us high value autos, motorcycles, TV sets. It is 1976 and we are a colony again, this time of Japan."[4] There is no doubt that this opinion contains a lot of exaggeration but reveals the real problem too.

Edith Cresson, Prime minister of France has even described the Japanese as ants imbued with single minded devotion *to vanquish* the Western world "the Japanese, she added: they are our common enemies."[5]

The most spectacular rifts, conflicts are among the USA, the Common Market, and Japan, but many more countries are tempted, and forced to take part in this trade war.

Causes of increasing trade wars

The question can be raised: why is there this trend that countries participate in the trade wars against each other? It is not very difficult to understand that during the periods of recessions, that is when over-production occurs than countries tend to restrict the import and stimulate the export at any cost. The nations' external economic policies give up their free market policies and intervene more and more in the international trade.

During the recessions of the 1980–90's the causes of recessions were more complex. At this time, as was mentioned, two oil price explosions occurred, as well, more or less exactly at the time of the recessions (1974, 1979), so this strengthens the idea that they were caused (exclusively) by these oil price increases. There are economists who argue that way.

In my opinion, in these cases there are really two factors, *over-production* and oil *price explosion*, which together caused the recessions, their relative contribution can not be quantified.

a) Historical fact that since the industrial revolution over-production crisis have occurred at regular inter-

[3] UN Economic Survey of Europe in 1982, 230; 1984–1985, 167.

[4] US News and World Report, April 16. 1984, 63.

[5] IHT, June 17, 1991, 1.

vals. After the world war there was a rapid growth, an age of economic miracles, when production, mechanisation, and automation increased. There is every reason to believe that the preconditions of over-production have been created. We have no reason to believe that the economy in this respect fundamentally changed.

b) Statistical facts. If we carefully examine the increase in productivity and compare it with real wages during the period 1970–1989 we can see again that the former increased much faster than the later.

c) The fact that the 1987 recession was relatively smaller than the one in 1990–92, which was more significant indicates that during that time there were no oil price increases, still there were recessions.

There is no doubt, that in recessions which were intertwined with oil price explosions, the price of oil played a significant role, but perhaps it can not be considered an exclusive cause of recessions.

So the first main cause of the increasing protectionism trend is the over-production crisis. But during the new recessions the oil price too contributed to the protectionism trends.

The consequence of the oil price hike was that the balance of trade of many countries turned into deficit. The balance of trade of 24 OECD countries had a total surplus between 1970–73, 10 billion dollars, but from 1974 there is an ever increasing deficit, from 24 billion it increased to 69 billion in 1980.[6]

The fact that the balance of trade of even these industrial countries (the nations' wallets) turned empty, moreover negative, forced them to *restrict the import* of goods and to try to *increase the export*. So here are the two sides of the "trade war".

The offensive side of "trade war" (export stimuli)

It is governments' external economic policy to try to boost export, partly because of over-production, to get rid of the huge surplus or to attempt to redress, the negative balance of trade sheet. How do governments help corporations and enterprises to increase their exports? There are certain measures (or weapons) at governments' disposal, the most important among them are: *export credit, dumping and currency devaluation.*

Export credit (sometimes called "credit war").

To stimulate exports both companies themselves and the government provide credit to the foreign buyer. The basic problem during the recessions – as was already mentioned – is that the advanced countries primarily want to export and decrease imports, because of over-production. But how can a foreign buyer buy without selling something and acquiring foreign currency? Without buying, a firm or a country can sell only on credit terms. So the exporter provides credit to the importer. Very often the exporter does not have the extra money to lend for a longer period of time, here governments can step in providing credit either to the exporter or to the foreign importer, often at favourable interest rates (interest rate war). Governments compete to provide favourable credits to stimulate the export of their firms.

Governments can even subsidise credit, if the world market credit rate is lower than the internal ones, or if the government want to secure the foreign borrower. So it is this export on credit terms which is partly responsible for the huge external indebtedness of the world economy (see later).

Dumping price

The other important weapon in the trade war is the dumping price. This price means that firms competing against each other for the buyer secretly offer lower prices to secure buyers. There is no completely uniform concept about what constitutes dumping, or dumping price. The following interpretation can be found: dumping price is when it is lower than the price of the same product in the importing countries, in other cases when it is lower than the world market price. In other cases we can find such definition "as below fair price" – which is open to very different interpretations, it is very ambiguous. Sometimes the dumping case is connected with increased market share (market penetration). Finally the most surprising type of dumping price is when the price is below the cost of production.

In an article on the World Economy the title of which is "Dumping and the Far East Trade of the European Community" – very revealing facts can be found. The investigations by the commission of the European Community found the following "dumping margins".

Why are firms willing to sell their products below cost and how do they make up these losses? Prices

Dumping margins[7]

Ball bearings from	Singapore	33,89%
Tapered roller bearings from	Japan	45,0%
Electronic typewrites from	Japan	76,0%
Hydraulic excavators from	Japan	31,9%
Electronic scales from	Japan	20,6%
Photocopying apparatus from	Japan	40,6%
Outboard motors from	Japan	53,2%
Computer printers from	Japan	86,0%
Video cassette recorders from	S. Korea	29,0%

[6] International Financial Statistics Yearbook 1987, 134–135.

[7] The World Economy, December 1988, 445.

below costs make products more competitive, and by penetrating foreign markets they can destroy firms there, that is conquest the market. Selling below cost of course implies that a certain loss will occur for the firm. This loss can be made up (covered) by earlier profits (or later profits) or compensated by government subsidy.

The media are full of accusations and counter-accusations of dumping, and with the demand that punitive tariffs be placed on imported dumped priced products.

Currency devaluation

A third and often used export stimulus is the devaluation of currencies. The essence of this is that the export firms will get more local currency for the acquired foreign currency, and in this way it is more interested in increasing its exports. Moreover the exporter could go below the world market price too if the new exchange rate made it possible.

The defensive side of the "trade war"

One of the classical and old defensive weapons is the tariff that is levied an imported goods, making them more expensive and in this way it protects local production. Although the relative share (or importance) of tariffs as a protective instrument is decreasing, still we can find a lot of examples in international transactions. This instrument is "market conform", that is it is in harmony with the international market mechanism, not direct intervention by the government.

Nowadays the imposition of tariffs is very often connected with accusations of dumping. So dumping is an offensive weapon often partly counteracted by imposing extra duties on goods. Let's see here, too, some examples "EC Alleging Dumping, sets tariffs on Japanese printers" is the title of an article special import duties of up to 33,4% on Japanese goods contending they are being dumped at unfairly low prices on EC markets.[8]

Sometimes we can read *allegations* that dumping accusations are only pretexts for imposing tariffs to protect domestic firms.

Quotas are another instrument of defence, import restriction. The essence of this is that governments set certain quantities that are allowed to import. This measure is not market conform, it is a direct, administrative interference by governments. This measure is stricter, and is used mainly in more serious conditions. To have a better understanding of its special significance let's compare the two defensive instruments: tariffs and quotas.

The frequency of use of tariffs and quantitative restrictions (in 100 transactions)%[9]

Time	tariffs	quotas	Total	quota as % of total
1949–58	13	3	16	19
1959–68	20	16	36	52
1969–78	15	28	43	71
1979–86	17	25	42	67

a) In the earlier period there were very few restrictions on import, in 100 international trade transactions only 16 – that is 16%. At the same time the application of quantitative restrictions that is quotas were very minimal (3 in 100 dealings).

b) In the latter periods, which include the two recessions, the share of quotas at the expense of tariffs increases significantly, while the number of cases where tariffs were applied hardly increased from 13 to 15 or 17. At the same time the frequency of using quotas increased from 3 % to 25%, more than sevenfold. This indicates that because of greater over-production during recessions, more effective and radical protection was needed.

c) Where as in the old days there were only 16 cases where in one way or another import restriction was applied this went up to 42 % in the 1990's.

In contrast to the fact that there is much talk about less government intervention, freer international trade, in the economic reality is the opposite. More and more government intervention, even more direct government intervention is taking place in international economic transactions.

There are a lot of *other administrative restrictions* which are used in the recession periods, out of them perhaps one is the most important, and is generally used, it is the "*local content* requirement". This legal measure means that exporters are expected to use a certain amount of locally made parts, or materials. This principle is particularly significant in cases of cars, electronic consumer goods, etc. The Brussels commission is expected eventually to settle for a *80% local* (i.e. Community) *requirement* in car production, but only as a *vague guide*".

The logic behind this requirement is to protect local industry, at least some of it that manufactures parts or components, that is secures employment. Among others this is one reason why Japanese and other firms set up assembly plants in other countries.

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[8] IHT, May 27. 1988, 13.

[9] World Development Report 1987, 161.