

Book Reviews

Trade Liberalization, Protectionism and Interdependence: Gatt Studies in International Trade.—By Richard Blackhurst, Nicolas Marian and Jan Tumlrir. Geneva: General Agreement on Tariffs and Trade. November, 1977. pp. 79.

The study under review is a brief account of issues concerning trade liberalization and protectionism. The authors have extensively argued in favour of free trade and have heavily criticized the protectionist policies presently adopted by different nations.

The report is divided into three sections. In section I the main trends in production and trade from World War II to the present have been reviewed. The three post-war decades experienced unprecedented rates of economic growth and prosperity. The three major factors which are responsible for this impressive expansion of post-war trade are listed by the authors as “institutional development, technological innovations and demographic trends”. In particular the liberalization of international trade, investment and the freeing of the world economy from the constraints imposed by the self-destructive nationalistic policies of the 1930's have played a major role in this development.

The institutional development in particular includes the establishment of the International Monetary Fund (IMF) and the General Agreement on Trade and Tariffs (GATT) which created a liberal and free environment for countries to receive the benefits that free trade offers. However, the authors admit that during the post-war period several restraining factors were also working simultaneously, for example, direct foreign investment, import substitution policies in developing countries, growing agricultural protectionism in industrial countries and technological developments which caused the substitution of synthetic for natural materials. In this context the authors point out the drawbacks of the conventional notions of the relative importance of trade in the domestic economy. An interesting finding is that as the imported intermediate content of production and trade has been rising, the ratio of export or import to national income has overstated the relative importance of trade in domestic economic activity. Moreover, most of the growth in this ratio in the post-war period only offset its decline in the period between 1913 and 1948. Therefore, any interpretation of the current situation which confidently posits

a historically unprecedented degree of trade interdependence should be viewed with considerable caution.

In the second section of the study arguments in favour of and against trade liberalization are presented. The benefits expected from trade liberalization have been classified into consumption gains, production gains, economies of scale gains, gains from a more competitive domestic economy and a contribution to domestic price stability. The first three should be well known to the readers of international trade as these constitute the basic motivation for the pursuit of free trade and are discussed in any basic textbook on international trade. These are well recognized gains primarily affecting national income and economic growth through a more efficient use of a nation's labour, capital and land. The latter two benefits are as the authors call them 'fringe or auxiliary benefits' which contribute to the achievement of goals pursued principally through policies other than trade liberalization (e.g. in the areas of competition policy and inflation control).

The authors mention the arguments against trade liberalization but their final conclusion is that trade restrictions are "an inefficient method of reducing unemployment, an inefficient and inequitable way of affecting the distribution of national income and an inefficient and counter productive method of reducing macro economic instability." Combining this with the knowledge of the income gains that come with reduction in trade barriers, the authors arrive at the modern case for further trade liberalization.

In the concluding section the authors deal with the economic and political aspect of current protectionist pressures. They argue that the pressure will keep cumulating as protectionism creates expectations and grievances within the protecting economy as well as abroad. This argument seems convincing and realistic.

An interesting analysis is made while discussing the psychological shift underlying the change in verbal fashion. When the world economy was expanding rapidly, the word 'integration' was used with its positive connotations of strength and stability to describe the process and the result of that growth. Nowadays the word 'interdependence' is used to describe the same results of economic growth, but it suggests a state of economic relations that is refractory and bewildering. In this study problems of protectionism *vis-a-vis* free trade have been raised and discussed, but the authors have not made any recommendations to resolve and solve these problems. The long list of references given at the end of the study is very useful for the students of this subject. The exposition is simultaneously rigorous, readable and non-technical. This booklet adds to the growing volume of literature on the merits of trade liberalization.