RESEARCH SEMINAR IN INTERNATIONAL ECONOMICS

School of Public Policy
The University of Michigan
Ann Arbor, Michigan 48109-1220

Discussion Paper No. 461

Market Access for Developing Countries

Alan V. Deardorff
University of Michigan

August 14, 2000

Recent RSIE Discussion Papers are available on the World Wide Web at:
http://www.spp.umich.edu/rsie/workingpapers/wp.html

Market Access for Developing Countries

Alan V. Deardorff

The University of Michigan

Paper prepared for the conference on
"Efficiency, Equity and Legitimacy: The Multilateral Trading System at the Millennium," in memory of Professor Raymond Vernon,
John F. Kennedy School of Government, Harvard University
June 1-2, 2000

Revised
August 14, 2000

ABSTRACT

Market Access for Developing Countries

Alan V. Deardorff

The University of Michigan

This paper argues that successful development by developing countries causes adverse consequences for some factor owners in developed countries. These in turn seek protection from imports and that protection undermines the benefits to the developing countries of their own growth. Several of the main examples of protection in the world today can be interpreted as arising from this mechanism, including protection of textiles, apparel, and steel. More broadly, current resistance to globalization may be due in part to this phenomenon. The paper concludes with a brief discussion of how policies and institutions should respond to this, including increased use and improvement of programs of trade adjustment assistance.

Keywords: Trade and Growth
Protection

JEL Subject Code: F13 Commercial Policy

Correspondence:

Alan V. Deardorff
Department of Economics
University of Michigan
Ann Arbor, MI 48109-1220

Tel. 734-764-6817
Fax. 734-763-9181
E-mail: alandear@umich.ed
http://www.econ.lsa.umich.edu/~alandear/

August 14, 2000

Market Access for Developing Countries [*]

Alan V. Deardorff
The University of Michigan

I. Introduction

Most scholars and policy makers today agree that the best strategy for a poor country to develop is to take advantage of international trade. In the last two decades one after another developing country has seen the wisdom of this strategy and has opened its markets to international trade and foreign direct investment (FDI). And yet, ironically, in spite of the approval that scholars from developed countries have accorded this change, the developed world has sometimes met this change by increasing its own barriers to imports from these developing countries. A cynic might question whether the developed world really wants to see developing countries escape poverty. But I see this reluctance to embrace developing-country exports as, at least in part, a natural result of the dynamics of growth, of trade, and of the political economy of protection. It is in the nature of trade and specialization in the world today that developing countries can advance only by stepping on the heals of some of those in developed countries. That is, developing countries grow by expanding in industries that developed countries must then leave behind, and those whose interests are entrenched in those declining industries will

[*] I have benefited from conversations with Bob Stern on the topic of this paper, as well as from participants too numerous to mention in conferences and seminars in the last few years on the subject of trade and growth. I have particularly benefited from the comments of my two discussants, Patrick Low and Craig VanGrasstek.

inevitably, and to some extent successfully, seek protection. But this protection then denies critical market access to developing countries, slowing down their growth.

This paper will first explore the reasons for this phenomenon loosely within the context of several models of international trade. It will then note some of its manifestations in the form of barriers to market access that have appeared over these decades of progress by developing countries. Finally, it will speculate on how this problem is to be solved.

II. Theoretical Considerations

In its simplest form and in a simple world, economic progress need not have adverse effects on anyone, nor be resisted by anyone. In the Solow growth model, for example, savers accumulate capital and wealth, and by doing so they increase the wage of workers, whether or not the workers themselves engage in saving. The same would be true in a world of free neoclassical trade, as long as all countries are sufficiently similar in their factor endowments to have factor price equalization (FPE). For then, any countries that grow faster than others will likewise accumulate wealth and force up the world-wide wage, raising per capita incomes even in those countries that do not manage to save.[1]

But that, most of us would agree, is not the world we live in. Instead, to the extent that the neoclassical (Heckscher-Ohlin, HO) model does describe the world, it is not one of FPE, but rather one in which factor endowments of different countries have become too diverse for FPE to be possible. In the terminology of the modern HO model, we are

[1] Increased saving by one country or a group of countries will lower per capita incomes only in countries that have more than the world average stock of capital per capita.

in a "multi-cone" equilibrium, in which different groups of countries have different factor prices and specialize with free trade in different collections of goods.

In this multi-cone model, as economic growth in the poorer cone occurs, it expands its output into goods that were just marginally competitive in the richer cone, causing those industries there to contract and shut down. Someone there will necessarily lose, the identity of the losers depending on the mobility of factors. If in the short run factors are industry specific, then those industry-specific factors in the declining industries will find their livelihoods undermined by trade with the advancing developing world. If instead factors are mobile across industries, then the shifting fortunes of industries based on factor intensities will cause the relatively scarce factors in the developed world to suffer decline in real wages. Either way, then, someone is worse off, and they can be expected to resist this change by lobbying for protection. If they get it, then market access for the growing developing world will be curtailed. Thus there is a built-in dynamic, in this particular model of trade and growth, for successful growth by the poor part of the world to lead to restrictions of market access against them in the rich part of the world. Since those restrictions in turn make it that much harder for the poor countries to grow, there is a built-in bias against their catching up to the rich countries.

I will spell out this reasoning only slightly more formally, leaving the details of the argument for another time.[2]

Effects of Growth

Consider a HO model with two factors, labor and some sort of capital (human or physical), and with three goods, X, Y, and Z, with X the most labor intensive and Z the

[2] See Deardorff (2000).

most capital intensive. Let there be two countries, North with lots of capital and South with little. They are initially engaged in free trade – perhaps South has just liberalized, as discussed above. Factor endowments differ sufficiently that FPE is not possible, and instead the initial equilibrium has different factor prices in the two countries, with South producing X and Y and North producing Y and Z. South exports X to North in exchange for Z, and the direction of trade of the good of intermediate factor intensity, Y, could go either way, depending on country sizes, demands, and the various factor ratios.

Now suppose that South accumulates a chunk of new capital. I will keep capital in North fixed, although it would be a minor variation on the argument to allow it to accumulate as well, so long as South accumulates relatively more. I will ask what happens, as a result, to all concerned.

Prices are going to change, of course, but to see how they will change, hold them fixed for a moment. Then South's growth will have the effects worked out by Rybczynski (1955): its output of Y will increase and its output of X will decrease. There will be no change, yet, in the outputs of North, since we haven't yet let prices change. Therefore, on world markets we will move from equilibrium to situations of excess demand for X and excess supply of Y. There will also be some excess demand for Z as South spends part of its increased income on it. The prices of X and Z will therefore both rise compared to Y.

In the absence of any policy response, these price changes will restore market equilibrium, with South again just meeting the somewhat reduced world demand for X, and with North responding to the increased price of Z, relative to Y, by producing more Z. As for good Y, its output rose initially due to the growth in South, but it now falls in

both North and South with the price changes. The reduced price and increased world income assure that the new equilibrium world output of Y is above its level before the growth occurred, with output in South increased by more than the fall in world demand and output in North. That is, there is a shift of resources in North away from producing good Y. North's industry Y contracts.

It is this contraction that is the main focus of my argument here, for it will entail losses for somebody in North. Exactly who these losers are depends on the mobility of factors. I will consider two cases: the specific-factors case of mobile labor but immobile capital, and the HO case in which both factors are mobile across industries. Note that in both cases the responses of outputs in the two countries to the price changes mentioned above would be in the same direction (although of different magnitudes), so that my conclusions above about the changes in the new equilibrium are valid for both.

Considering first the specific factors case, I let capital (of whatever type) be sector specific, perhaps representing a short-run inability to transform itself or retrain into a form needed for the expanding sector Z. Labor in North, assumed here to be mobile although one could easily have parts of it be sector specific as well, is therefore drawn from the contracting sector Y to expanding sector Z by what would otherwise be a wage differential between the sectors. North's specific factor in sector Y, however, cannot move, and it suffers a loss in its factor payment as a result. That is, the return to specific capital in sector Y goes down, while the return to sector-specific capital in sector Z goes up. Both of these changes are close to unambiguous in real terms, North's owners of specific capital in sectors Y and Z being made worse off and better off respectively in

terms of what they can buy of goods Y and Z.[3] As usual in a specific factors model, the real return to the mobile factor, labor, is ambiguous here, rising in terms of Y but falling in terms of Z.

If both factors are inter-sectorally mobile, on the other hand – which we may take as the case of a longer run – then the Stolper-Samuelson results apply.[4] The rise in the relative price of good Z compared to Y assures that in North, where both are produced, the factor used intensively in Z gains, while that used intensively in Y loses, both in real terms so long as we consider only these two goods. In this case, since Z is more capital-intensive than Y, it is owners of capital that gain and owners of labor that lose, in terms of what they can buy of Y and Z.[5]

Realistically (if one can ask for that in a theoretical argument such as this), we may expect the world to be a hybrid of these cases, with growth in South causing harm both to some factors of production that are employed in North's contracting sector and are unable quickly enough to move, and also causing harm to labor more generally in North as it is subjected to increased competition from the labor-abundant South. Ironically, this last effect is happening in spite of the fact that South is becoming *less* labor abundant, since it is accumulating capital. But the fact that it is nonetheless still specialized in labor-intensive sectors means that its expansion of capital permits it to compete more vigorously with the most labor-intensive sector producing in North. That is, South is

[3] Real wages in this model must also take account of good X, which is not produced in North. In this case, since the price of X goes up as resources are pulled out of its production by Southern growth, the real decline in the return to sector-specific capital in North's Y remains unambiguous. However it is possible, but unlikely, that the sector specific capital in Z may also lose from this price increase. The reason that both may lose is that North as a whole is experiencing a worsening of its terms of trade.

[4] See Deardorff (1994).

[5] Again, the rise in price of X means that the loss of labor is even greater, while the gain to capital can potentially be reversed.

expanding into a sector that, for it, is relatively capital-intensive, but from the point of view of North this sector is still quite labor intensive. Therefore, the expansion causes the wage of labor in North to fall.

Naturally, there must be effects here on the factor prices in South as well, although these are not the primary focus of analysis here. Here too, we may consider both specific-factors and HO cases.

With specific factors, the addition to the capital stock of South would presumably have been installed entirely in the more capital-intensive sector, Y. At initial prices, this would raise labor's marginal product in sector Y, increasing the wage there, and drawing labor out of sector X and into sector Y. The return to sector-specific capital in X goes down as labor pulls out, while the return to capital in sector Y may rise or fall due to the conflicting effects of increased capital and increased labor there. However, as prices of X and Y now change as described above – the price of X rising and that of Y falling – these changes are somewhat reversed. It is unclear, I think, just what the end result for any of these factor prices will be.

In the HO world with factor mobility, the forces of factor price equalization (FPE) simplify things, since at initial goods prices factor prices cannot change at all with the accumulation of new capital. The only effects on factor prices therefore occur with the price changes, which act to raise the real wage of labor and lower that of capital. Of course, this is not too surprising given that the country is accumulating more capital for a fixed labor force.

What is the net effect of all of this on the incomes of the two countries as a whole? This is not a simple question because of various terms of trade effects, and these

in turn depend in part of which country initially exports the good that both of them produce, Y. To avoid considering an unreasonable number of cases, I will make the very special but arguably neutral assumption that initially there is no trade in Y at all, not because there cannot be, but because factor endowments happen to be such that both countries produce exactly what their own consumers demand. Therefore, the initial pattern of trade has South exporting only the most labor-intensive good, X, to North, in exchange for only the most capital-intensive good, Z. This will mean that the fall in the price of Y, which we found above, will have no terms-of-trade effects at all on either country. Of course, the reader should keep this in mind and recognize that under more general conditions the price change will cause an additional loss for whichever country exports good Y.

This simplifies things a bit, but not totally, since we also found above that the prices of both X and Z will rise as a result of the capital accumulation in South. The effect of this on the two countries' terms of trade therefore depends on which of these changes is larger. In general we cannot know, but I think that there is a presumption in favor of the relative price of X rising compared to Z. The reason is that, at initial prices, an excess demand for Z appears only because of the increased income in South, with no change in supply. But the excess demand for X appears not only because of the increased demand for X by Southern demanders, but also because of the decline in supply of X that happens when one or both factors (depending on whether it is the specific-factors or HO model) is withdrawn from its production. Obviously this is not conclusive, since differences in various demand elasticities could confound this conclusion, but nonetheless

I will assume that the relative price of X rises compared to Z (and even more, of course, compared to Y).

With these quite special assumptions about changes in relative prices and their importance, the effects of the Southern growth on national incomes are now unambiguous. South gains both from its increased capital stock, and then gains again as its terms of trade improves with the increased relative price of its export good, X. North, on the other hand, gains not at all at initial prices, since its production and the value of it are unchanged, and then it loses from this same worsening in its terms of trade.[6] So South gains, and North loses – not perhaps entirely what you would have hoped, but remember that South was initially poor, and indeed it remains so since I am assuming that the capital accumulation is nowhere near enough for it to catch up to North.

Effects of Politics

I turn now to what may happen to policies as a result of these changes. That takes me into the realm of the "political economy of trade policy," an exciting area of research in which I think there is still lots to be done, and in which there are not yet, I think tractable models on which most scholars agree. The state of the art, to my knowledge, is Grossman and Helpman (1994), but it is from Grossman (1998) that I infer that much more needs to be done.

[6] This conclusion may seem to contradict Krugman (1994), who answered "No" to the question of his title, "Does Third World Growth Hurt First World Prosperity?" In fact, while Krugman looked at several models, he never really addressed this question in this model. The closest he came, in a model without FPE, was to ask about the effects of trade, not growth, and there he only cited the empirical answer of Lawrence and Slaughter (1993).

I will therefore not attempt to model the politics here myself. I will simply assume that the changes described above lead the North to implement a tariff on imports of good Y, and I suggest several reasons why it is plausible that this will happen. I will *not* try to motivate the tariff by the loss in national income of North that was just noted. That was a somewhat special result depending on the assumed pattern of trade (or lack of it) in good Y, and in any case a tariff on good Y will not help it. North loses national income above because the price of good X goes up, and although it is true that its market power may permit it to force that price back down a bit by placing a tariff on X, this would only unleash a tariff war to no purpose. And a tariff on Y in any case would not help.

Rather, the reason for North's tariff on Y will be distributional: to protect those who lose, or lose most, from the expansion that has occurred in South. Who these are depends, as seen above, on assumptions about factor mobility, but the idea that these may be helped by a tariff does not. Whether factors are specific or mobile, the fall in prices of certain factors is a direct result of the increased imports of good Y and the accompanying fall in its price compared to Z within the economy of North. Both the owners of these factors and the policy makers who control trade policy know that.

Various institutional mechanisms are then possible that lead to a tariff. Most cynically, the losers from imports of Y may simply bribe the policy makers to provide a tariff.[7] Or the political process may permit the losers to achieve the same result less directly, by lobbying policy makers or by contributing to the election campaigns of those who promise a tariff. It may even be the case that the losers themselves constitute a

[7] Or even more cynically, threaten to discontinue bribes if they don't.

majority of voters and can vote in the tariff on their own. Finally, the losers may need to do nothing at all, and leave it to policy makers to respond to their plight out of sympathy, a possibility that underlies Max Corden's (1974) Conservative Social Welfare Function. This last possibility in effect underlies the Safeguard Clause of the World Trade Organization (Article XIX of the GATT), which permits a country to raise a tariff temporarily against any increase in imports that is perceived as causing sufficient injury.[8] Of course the GATT does not permit the safeguards tariff to last indefinitely, but in practice countries have been adept at using anti-dumping and countervailing duties, especially the former, for what is arguably this purpose.

So, there are many ways that injury to factor owners in North may lead to protection, and I will simply assume that it happens. My purpose has not been to explain in any detail how it comes about, except to recognize that it may well be a natural result of factor accumulation in the less developed world. My next purpose is to examine what will be its effects.

Effects of Protection

When North restricts its imports of good Y, the main effect is to lower the good's world price. Note, of course, that both North and South are assumed here to be large enough to matter for world prices, and indeed North may have had an incentive to restrict trade before South ever grew. However, I assume that it did not do so, maybe because it recognized the harm this would do to the world, and even to itself if there were retaliation. Or perhaps it would have used protection but for the constraints of the

[8] See Deardorff (1987).

WTO/GATT. And note in any case that it may not have been a significant importer of good Y before South grew, just as I assumed above that it was not, in which case restricting trade in Y would previously have done it no good.

But now the situation is different, for South has grown and North is now importing Y, with the adverse consequences noted above for a portion of its population that it seeks to protect. It does this by restricting imports of good Y, its objective being to raise its price on the domestic market. But because of North's size, it cannot help but also lower the price of Y on the world market. This improvement in North's terms of trade occurs, but it is actually contrary to what North's government is trying to achieve, since it means that North's domestic price of Y rises by less than the tariff.

My concern, however, is what this does to South. This further fall in the world price of good Y (recall that it already fell due to the growth itself) is, for South, a fall in the price of its capital-intensive good. Therefore if factors are mobile, this price change will cause a further decline in the return to capital in South. Some decline was already expected, due to the capital accumulation itself, but now the response of North protecting its market causes the decline in the return to capital to be even larger. If factors are mobile in South, this effect will be felt throughout the economy. If they are not, then the effect will be confined to sector-specific capital in industry Y. But either way, the return to the very investment that started this whole process is reduced.

At the same time, because this is a decline in South's terms of trade, its real national income as a country is reduced as well. Therefore it is not just the return to capital as a privately owned factor that is undermined by North's protection. The overall social return to growth is also undermined. This means not only that the particular

episode of capital accumulation that I assumed at the start has yielded a smaller benefit. It also means that the incentives for any further capital accumulation are reduced as well. Any way you look at it, South's attempt to grow, and to catch up with North in terms of per capita income, has been frustrated by North's response in protecting its market.

The Lesson

This, then, is the point I am trying to make. At least in this particular theoretical framework, attempts by the poorer countries of the world to escape poverty will stimulate protection in the richer countries, and this protection makes the escape from poverty more difficult. In this particular case, growth through capital accumulation expands the poor country's capacity to produce what are, for it, capital-intensive goods. But these same goods are at the labor-intensive end of the spectrum in the developed world, and the effect is thus to lower incomes in those labor-intensive industries. Because the effect is felt unevenly in the developed world, the pressure for protection is arguably larger than it would have been if spread more thinly across the whole population. And it also tends to be the poorer groups within the rich North that feel this effect, which increases even more the incentive for protection as a social policy.

I believe that this tendency for poor country growth to cause rich country protection is fairly general, arising both in a variety of theoretical contexts and in the real world today. In the next section I will touch on the real world, but let me conclude this section by broadening the theoretical context.

First, I have described this phenomenon within a somewhat special model: a three-good, two-factor, two-country HO or specific-factors model without FPE. In fact,

the only one of these assumptions that I think is necessary is the absence of FPE. One could easily have more factors, goods, and countries and the story could still be told, so long as the countries of the world are not so similar in their factor endowments that they can achieve the equilibrium of an integrated world economy and thus FPE. Without FPE – that is, with multiple cones of diversification – development in the poor countries will inevitably mean their expanding in industries that for them are at the leading edge of industrialization, their most capital-intensive sectors. But these same sectors will be at the trailing edge of industrialization in the rich countries, and the expansion in the South will require their contraction in the North. This will have adverse consequences for precisely those factors in the North who are least well equipped to bear the loss. And it will lead to protection that to some extent blocks the way of the developing South.

If there are many countries, there could be many cones, and the very poorest countries may stimulate protection not in the richest countries, but only in countries just a bit less poor than they. Wherever a country lies in the path of economic development, for it to move ahead it must tread on the heals of those ahead of it, and those heals are likely to kick back, using trade protection, and make progress more difficult.

It is not only within a factor proportions model that this story might be told. It also fits well within what I take to be the product cycle model of Raymond Vernon (1966). In that model, incomes rise from the advance of technology more than from capital accumulation, and the advance of technology takes the form of an unending stream of new products that are invented in the developed world. When first invented, these products can be produced only where they were invented, for a variety of reasons that gradually diminish in importance. Over time, new goods become old goods. The

production of the old goods shifts to less advanced countries, who thus benefit with a delay from the expanding technology. And the now-old goods are replaced in the advanced countries by still newer goods that are more recently invented.

This is a wonderful story, and it describes a path for progress that seems to offer hope for the entire world. The problem is, it seems to me, that advanced country producers may be reluctant to quit producing new goods when they become old goods. Suppose that production of a new good requires a certain amount of product-specific investment, either in physical capital or in human capital. When the new good becomes an old good and the knowledge of how to produce it moves abroad, these investments become obsolete, and those who made them lose. Even if they knew in advance that this would happen, they still have an incentive to seek protection, if protection is available, and they will.

Therefore, within this version of the product cycle model we see very much the same phenomenon that I described for the HO model. Here too, developing countries advance by moving up a ladder of specialization, here defined by the newness of the goods that they produce rather than their capital intensity. In order to make progress they must displace producers of the least advanced goods still being produced in the countries ahead of them. Those producers will suffer from this competition, and they will seek trade protection in order to avoid it, wherever possible.

III. Manifestations

I suspect that this is one of those phenomena that are too obvious to require documentation, and indeed that I am in more danger of its being dismissed as trivial than as wrong. But let me nonetheless point out a few examples of it that come easily to mind.

The high tariffs in textiles and apparel, and the developed countries' great reluctance to reduce them, are probably the best example available. We all know that these are the first industries beyond handicrafts that developing countries try to establish as they industrialize, and these should therefore be the first industries that the developed countries move out of. But this movement has been resisted in virtually every advanced country. The Multi-Fibre Arrangement (MFA) carried this process a step further, and institutionalized it within the GATT. The MFA departs slightly from the scenario I have described, however, because rather than a tariff it uses quotas that are allocated to the developing countries. This serves to give them the rents from the quotas, and it removes the negative impact on their terms of trade, but it nonetheless effectively stifles growth in these sectors. And, ironically, the MFA creates entrenched property rights to export the limited amount of these products from countries, even after they have moved beyond them in their own development. It therefore makes it even that much harder for latecomers to economic development to establish a foothold in these industries.

Fortunately, many countries have succeeded in developing in spite of this, and as they have done so, their comparative advantage has progressed to more and more capital intensive goods. For some years, it has been the steel industry in the United States that has struggled most with import competition from some of the more advanced developing countries, even more than textiles and apparel. These steel producers have sought and

found protection, most frequently by using the anti-dumping and countervailing duty statutes. Of course, these statutes require more than just import competition and injury – the imports must also be judged unfair by one of several definitions. But most observers agree that this is a formality that is easily satisfied, given the way the statutes are written and administered.

One might have thought, based on the theory here, that as the developing world advances only those countries within it that are most advanced would pose a problem for the developed countries, just as the steel example suggests. Countries further behind would be displacing industries that have long since disappeared from the most advanced countries, and resistance to them would be found mostly in other developing countries that are just ahead of them. With that in mind, the recent opposition within the United States to giving small trade preferences to the poorest countries of Africa is surprising. These countries are so far behind the U.S. economically that it is hard to imagine that they pose a competitive threat to anyone in America. Nonetheless, as I (don't) understand it, the U.S. textile unions have mounted an effective campaign against this initiative. What this illustrates, apparently, is that if protection of declining industries is sufficient, they never disappear at all from countries that should have left them far behind. They can therefore create resistance to development by even the poorest of countries.

The final example that I will mention is not of a particular industry or region, but rather the much broader concern that has arisen in just the last few years over "globalization." This takes many forms, but a large part of it is the concern that wages and employment of developed country workers are being reduced by competition with the developing world. This concern has not yet, fortunately, led to any increase in actual

protection that I know of. But it has contributed to the protests against the WTO, and it may have helped prevent a new round of negotiations to reduce tariffs from getting underway. It has recently appeared as resistance to admitting China to the WTO. And it promises to continue to impede expansion of the NAFTA to include other developing countries.

IV. What To Do

The lesson here is not just that countries protect against imports – we knew that. It is that progress by developing countries leads rather naturally to increases in protection that in turn render that progress more difficult. The process works through normal economic mechanisms together with the political reality that countries try to protect those within their societies who are being hurt. We should not expect it to be otherwise, no matter how much we may deplore it. Instead, what we need to do is to seek institutional mechanisms that will assist development while recognizing the reality of developed country resistance to it.

Furthermore, although I have not stressed it as much as perhaps I should, those protected in developed countries from the competition with developing countries tend to include those who are already near the bottom of the developed-country income distributions. Not all owners of factors in labor-intensive industries are poor, of course – see Krugman (1997) – but many are workers with limited skills and low wages. As long as they are working, they are much better off than the workers in developing countries whose competition they fear. But they are surely among those whom income redistribution policies ought to help, not hurt, within the developed world. So to some

extent, what we face is a tradeoff between helping our own poor and helping the world's poor.

Indeed, the tendency to use protection in this situation is a natural response to exactly this tradeoff, given the high weight that countries naturally place on their own people in preference to others. Protection against imports from developing countries does not necessarily mean that we don't want to help them, but rather that we also want even more to help our own poor.

The world as a whole, however, must treat all poor as its own, and one purpose of international institutions must be to ensure that. It is the responsibility of the WTO to prevent rich countries' trade policies from tilting too far in favor of their own people and against the world's, even when it is their poor whom they are trying to help. That is why the WTO must hold the line against increases in protection, even if they are motivated by what seem to be legitimate concerns of domestic income distribution.

Unfortunately, it is not obvious that the WTO is doing a very good job of this. By that I do not mean to criticize the Safeguards Clause, the purpose of which is explicitly to buffer adverse income shocks due to import competition. If the only use of trade policy for such purposes were under it, then I think we would be in pretty good shape. The problem is that countries rarely use the safeguards clause at all, and instead have found so many other ways to protect declining industries. The expanding use of anti-dumping, the MFA, and the carve-out of agricultural policies have all permitted countries to protect against imports from developing countries far beyond what the world's conscience should permit. The Uruguay Round promised progress in eliminating the MFA, and it made a first step toward controlling agricultural protection, but even these promises have been

disappointing in their implementation. And anti-dumping was not made any less destructive.

So what can we do? We can continue, of course, to resist protection in all of these and other forms, and we can push to strengthen the international institutions that support this aim. But more important, recognizing that at least some protection arises from a legitimate need, we must seek other ways to meet that need and thus lessen the pressure for protection.

That is, to the extent that developing countries do advance, it is true that they will displace workers and firms in developed countries. Many of these are among the poor of the developed countries, or at least they are by the time this happens to them. The developed countries therefore need to have better arrangements to assist these people.

I am led, therefore, to an argument for yet more of a familiar and never very successful policy: trade adjustment assistance (TAA). We need it now, more than ever, not just for the recipients of the assistance but also for the developing world whose progress will be blocked by protection if we don't find some other way to help those who compete with developing country exports. Indeed, because the need for TAA is larger than just the interests of developed countries, perhaps our international institutions – the WTO and the World Bank most likely – should be putting pressure on developed countries to implement such policies more effectively. The safeguards clause, for example, could require that any use of a tariff for safeguards purposes must also be accompanied by some form of TAA.

Of course, TAA programs have been notorious for their ineffectiveness. Therefore, we also need to find ways to improve them. Considering how important they

seem to be in principle, it is appalling that they have not gotten more creative scholarly attention. I was slightly encouraged, a few months ago, by news reports that the Bradley presidential campaign was proposing a program of wage insurance for trade-impacted workers. But of course the Bradley campaign ended, and I have seen no more mention of this or any other ideas along these lines. I hope that will change.

References

Corden, W. M. 1974 *Trade Policy and Economic Welfare*, Oxford: Clarendon Press.

Deardorff, Alan V. 1987 "Safeguards Policy and the Conservative Social Welfare Function," in H. Kierzkowski, ed., *Protection and Competition in International Trade*, Blackwell.

Deardorff, Alan V. 1994 "Overview of the Stolper-Samuelson Theorem," in Alan V. Deardorff and Robert M. Stern, eds., *The Stolper-Samuelson Theorem: A Golden Jubilee*, Ann Arbor, MI: University of Michigan Press, pp. 7-34.

Deardorff, Alan V. 2000 "Developing Country Growth and Developed Country Response," Discussion Paper No. 462, Research Seminar in International Economics, University of Michigan, August 14.

Grossman, Gene M. and Elhanan Helpman 1994 "Protection for Sale," *American Economic Review* 84, September, pp. 833-850.

Grossman, Gene M. 1998 "Comments on Conference Version of Paper," in Alan V. Deardorff and Robert M. Stern, eds., *Constituent Interests and U.S. Trade Policies*, Ann Arbor, MI: University of Michigan Press, pp. 57-61.

Krugman, Paul R. 1994 "Does Third World Growth Hurt First World Prosperity?" *Harvard Business Review*, (July/August), pp. 113-121.

Krugman, Paul 1997 "Who's Buying Whom? The Milliken Man March on Washington," *Slate* Sep 25.

Lawrence, Robert Z. and Matthew J. Slaughter 1993 "International Trade and American Wages in the 1980s: Giant Sucking Sound or Small Hiccup?" *Brookings Papers on Economic Activity* 2, pp. 161-226, 1993.

Rybczynski, T. M. 1955 "Factor Endowments and Relative Commodity Prices," *Economica* 22, pp. 336-341.

Vernon, Raymond 1966 "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, (May), pp. 190-207.