Export-restraint Arrangements and Trade Liberalization

Michel Kostecki

EXPORT-RESTRAINT arrangements such as orderly-marketing arrangements (OMAs), voluntary export restraints (VERs) and export forecasts are outstanding among the contingent of protectionist measures that have come to be used over the last decade or so. These 'grey area' measures, as they are euphemistically called, are fundamentally at variance with the principle of non-discrimination, as expressed in Article I and Article XIII of the General Agreement on Tariffs and Trade (GATT), and with the multilateralism of the international trading system.

Why, then, hasn't the conformity or non-conformity of export-restraint arrangements with GATT rules been settled among GATT contracting parties (member countries)? That, first of all, would require a complaint to the Contracting Parties to the GATT by one of the 95 member countries. That, in turn, would require the Contracting Parties to make a ruling. All that is easier said than done. In fathoming why that should be so it should be borne in mind that export-restraint arrangements provide a short cut to protection against imports because no legislative struggle is needed.

A number of distinctive features, related to the economic effects and the decision making involved, explain why 'grey area' measures have an inherent tendency to expand. The analysis of this article suggests that strategies designed to limit this expansion should take into account, in order to be effective, the specific pattern of alliances which characterizes trade policy under export-restraint arrangements.[1]

MECHANICS OF EXPORT-RESTRAINT ARRANGEMENTS

Although the terminology of export-restraint arrangements is far from uniform, a brief account of the most frequently-used terms may be of interest, given the purpose of this article. The term 'voluntary export restraint' designates an export

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MICHEL KOSTECKI: a Counsellor in the Non-tariff Measures and Surveillance Division, Secretariat of the General Agreement on Tariffs and Trade (GATT), Geneva; author of *East-West Trade and the GATT System* (1979).

restriction imposed in response to pressures from an industry or government in an importing country while formally remaining a 'unilateral' action of the exporting country. The restriction is 'voluntary' in the sense (i) that the exporting country formally has a right to eliminate or to modify it unilaterally and (ii) that it is essentially monitored and enforced at the exporting country's border. Governments of importing countries sometimes disassociate themselves from VERs or declare that they are not aware of their existence. In reality, though, most VERs are bilaterally-negotiated agreements and the claim that they are 'unilateral' measures relies on a legal nicety.

The shared responsibility of the importing country and the exporting country for the introduction and administration of a given export-restraint agreement is explicitly recognized under so-called orderly-marketing arrangements and voluntary restraint arrangements (VRAs). Elimination or modification of export restraints under these types of arrangement requires the consent of both the countries concerned. The term 'orderly-marketing arrangement' is usually reserved for government-to-government arrangements that frequently specify detailed rules of export-supply management, consultations and the monitoring of trade flows. The term 'voluntary restraint arrangement' is often used to cover, in addition to OMAs, arrangements with industry participation. In the United States, in the terms of the Trade Act of 1974, an OMA may include cases of bilaterally-negotiated import quotas.

Terminology is even more fluid in the case of arrangements containing less formal commitments such as export forecasts, consultation arrangements, industry-to-industry arrangements *et cetera*. The terms 'export forecast', 'prudent marketing arrangement' or 'consultation arrangement' usually designate attempts to monitor exports without formally undertaking any firm commitment in terms of market shares. In that way the arrangements, many of which are *de facto* restrictive in nature, open the door to a para-legal trading system shaped outside the GATT system and supporting domestic legislation which puts constraints on the conduct of trade policy.

The 'grey area' character of export-restraint arrangements is also due to the ambiguous nature of government involvement in them. Industry-to-industry arrangements are thought of as business policy rather than trade policy. Since many industry-to-industry arrangements, however, benefit *de facto* from covert government support, the formal distinction between trade and business policy may be deprived of any economic significance.

The commitment in 'grey area' measures to restrain exports takes the form of either export quotas or minimum export prices. Export quotas are usually defined in terms of an absolute level of exports or of a market share. Three different methods are used to divide an importing country's market between domestic and foreign producers: the home-industry-first approach, the exporters-first approach and the market-share approach.

(a) The home-industry-first approach signifies that a certain minimum level of projected domestic demand is first allocated to producers in the importing country. The number of units that the exporting country may ship is not fixed. This implies that the risk of demand fluctuation is mainly borne by exporting firms. Under the system, however, if there is a dominant exporter operating under free pricing, or if there is sufficient product differentiation, the exporter(s) may influence the quantity of exports by their marketing strategy. For example, they may sell more (at a lower price) as long as the quota allocated to the domestic industry in the importing country is respected.

(b) Under the exporters-first approach, a certain maximum level of exports is fixed, the rest of the market being left to the producers in the importing country. Here the risk of demand fluctuation is mainly borne by domestic producers. Moreover, the system encourages the profit-maximizing exporters to raise their prices for a guaranteed export market. Such was the case in the arrangement restricting exports of Japanese cars to the United States during the period 1981-85.

(c) Finally, under the market-share approach, the risk of demand fluctuation in the importing country is shared equally between domestic producers and foreign suppliers. This may simplify the negotiating process, for the projection of future demand is not a central topic of discussion, as in the other two approaches.

It is usually the responsibility of the government in the exporting country, under these arrangements, to allocate export quotas among domestic producers. An export-quota allocation may be either free of charge or based on tender sales. It is the free-of-charge allocation, whereby the quota rent is usually expected to accrue to the exporting firms, that is mostly used under export-restraint arrangements.

An export quota may be *ad valorem* or defined in volume terms. The quotas maintained under export-restraint arrangements are most frequently defined in volume terms. Under a volume quota, there is an incentive to 'trade up'; that is, to shift the emphasis from low-value to high-value goods and to increase product differentiation. The scope for trading up greatly depends on the product coverage of the export restraint.

Product coverage of export-restraint arrangements tends to be defined at both a general and a specific level. A general restraint commitment usually refers to broad product categories or even the total output of a given industry, such as steel and textiles. Specific commitments refer to precisely-defined product lines or even market niches. The more specific a given product definition, the narrower is the scope for trading up in products covered by the export restraint.

A system of export-restraint arrangements may differ in the degree of its selectivity. In certain cases (like restraints on steel exports to the United States), exports to a given market are restricted by virtually all the major exporting countries. In other cases, only a small portion of total exports (usually exports by the most efficient producers or the most heavily subsidized exports) is covered.

The duration of export-restraint arrangements is typically limited and specified in advance. It usually covers a period of at least one year and rarely exceeds five years. Nevertheless, many restraints, once established, continue to be extended from one period to the next and remain in force for a decade or even longer (see Table 4 near the end).

Export-restraint arrangements in general and OMAs in particular frequently specify rules of export-supply management and define terms of cooperation between the parties involved. Export-supply management is often restrained by 'carry over' and 'carry forward' clauses (requirements referring to the spreading of exports over time) and to 'swings' among product categories covered by the global (overall) commitments. The terms of enforcement specified in the arrangements usually refer to such aspects as the duration of the restraint and conditions for its extension, statistical surveillance and exchange of information, as well as consultations.

SEVERAL QUANTITATIVE ESTIMATES

Table 4 presents a list of major known export-restraint arrangements in operation in 1986-87. The listing is not by any means exhaustive. Many export-restraint arrangements are secretive in nature and are not covered by press reports on which this listing is substantially based. Consequently the data discussed below significantly under-estimate the importance of this form of protection.

Among the 137 export-restraint arrangements reported in Table 4, 68 protect the market of the European Community,[2] 45 protect the American market and ten protect the Canadian market. Thirty two cases cover exports originating in high-income countries other than Japan, while 26 cases cover exports originating in Japan. Eighteen cases cover exports originating in Eastern Europe. Forty four cases cover exports originating in developing countries other than the Republic of Korea and in Eastern Europe, while seventeen cases cover exports originating in the Republic of Korea.

Product categories most heavily affected by export-restraint arrangements include steel and steel products (44 arrangements), textiles and clothing (restraints under the Multi-fibre Arrangement [MFA] are excluded from the listing in Table 4,[3] but 25 arrangements outside the scope of MFA IV [concluded in 1986] are listed in the table), machine tools (six arrangements), automobiles and transport equipment (fifteen arrangements of which thirteen are with Japan), electronic products (ten arrangements of which seven are with Japan), footwear (eight arrangements) and agricultural products (25 arrangements). In the textile, clothing and steel industries, the extensive network of export restraints effectively sanctions a system of managed trade on a global scale. Moreover, the 1986 arrangement between the United States and Japan on trade in semi-conductors firmly established managed trade in the electronics industry, for the United States and Japan accounted then for about 90 per cent of the $30 billion worth of world production of semi-conductors from which derives an electronics industry with sales of $300 billion.

The import-weighted coverage of export-restraint arrangements is particularly significant in the Japan-European Community and Japan-United States relationships. To calculate the coverage, the value of imports of each product subjected to export-restraint arrangements may be aggregated by group in the Standard International Trade Classification (SITC) and expressed as a percentage of the total value of imports in each SITC group. The trade coverage of the export-restraint arrangements listed in Table 4 is estimated by using 1984 trade data. The import-weighted coverage of 'grey area' measures was about 38 per cent for the European Community's imports from Japan and not less than 33 per cent for the United States' imports from Japan. The Japan-Community and Japan-United States trade flows in products other than steel and textiles covered by 'grey area' measures accounted for more than 3 per cent of world trade.

About 80 per cent of world trade in textiles and clothing was regulated by MFA III (1982-86). The figure is somewhat higher if the bilateral export-restraint arrangements involving non-MFA countries are also included. The trade in textiles and clothing subjected to export-restraint arrangements accounts for more than 4 per cent of world trade.

Close to 20 per cent (the 1984-85 figure) of world trade in steel and steel products is subjected to 'grey area' measures. Trade in these product categories accounts for about 4 per cent of total world trade. This implies that the share of trade in steel and steel products subjected to export-restraint arrangements is in the range of 0.5 to 1 per cent of world trade.

Finally, the share of 'other consumer goods' and agricultural products covered by export-restraint arrangements, and not considered in previous estimates, probably does not exceed 2 to 2.5 per cent of world trade.

This signifies that overall, in the mid-1980s, not less than 10 per cent of world trade, and about 12 per cent of world non-fuel trade, is covered by export-restraint arrangements. One of the major shortcomings of this estimate is that it indicates nothing about the trade impact of the export-restraint arrangements — that is, about the value of imports that would have existed in the absence of the measures.

The trade impact of export-restraint arrangements depends on the respective elasticities of export supply and demand as well as on the price dimension of the measures. The simplest method of measuring the price dimension is to compare the price which would prevail in the importing country *without* the measure with the price which would prevail *with* the measure if the prices paid to export

TABLE 1

Tariff Equivalent of Certain Export-restraint Arrangements

Product	Importing country/ exporting country	Measure[a]	Tariff equivalent (T)[b] Year	Estimate (%)	
Automobiles	United States/Japan[c]	VER	1984	12[1]	
				10[2]	
				13-20[3]	
			1983	8[1]	
				6[4]	
			1982	4[1]	
			1981	2.5[1]	
	France (EC)/Japan[d]	VER	1984	15	
	Italy (EC)/Japan[d]	VER	1984	10	
	United Kingdom (EC)/Japan[d]	VER	1984	22	
Video tape recorders	European Community				
	United Kingdom /Japan[e]	EF/VER	1984	3	
	West Germany /Japan[e]	EF/VER	1984	7	
	Belgium /Japan[e]	EF/VER	1984	12	
	France /Japan[e]	EF/VER	1984	15	
	Luxembourg /Japan[e]	EF/VER	1984	25	
	Greece /Japan[e]	EF/VER	1984	35	
	Denmark /Japan[e]	EF/VER	1984	41	
	Italy /Japan[e]	EF/VER	1984	50	
	Spain/Japan[c]	EF/VER	1984	49	
Steel and steel products[f]	United States/Australia, Brazil, Japan, South Korea, Mexico, South Africa, Spain, Sweden	VRA			
Structural steel	"	VRA	1985	14-16	(4-6)
Stainless steel	"	VRA	1985	16	(6)
High-temperature alloys	"	VRA	1985	15	(5)
Textiles and clothing	United States/Hong Kong	OMA			
Cotton sweaters[g]	"	OMA	1984	22	
Fashion jeans[g]	"	OMA	1984	10	
Textiles and clothing[h]	United Kingdom/Hong Kong	VRA	1983-84	5-10	
Textiles and clothing[i]	United Kingdom/Hong Kong	MFA III	1983-84	20	
Sweaters[j]	United States/Hong Kong	MFA III	1983-85	5-50	

[a]The acronym EF stands for export forecast.

[b]The import tariff equivalent (T) is indicated in terms of the *ad valorem* tariff rate (per cent).

[c]Computation of the tariff equivalents is based on the following estimates of the price impact of the restraints:

[1]Estimate of the International Trade Commission in the United States, reported in *US Mission Daily Bulletin*, 15 February 1985, p. 512.

[2]Estimate by Robert Crandall, of the Brookings Institution in Washington, reported in *Inside US Trade*, Washington, 8 February 1985.

[3]Estimate by Charles Lieberman, then of Shearson Lehman Bros, reported in *Business Week*, New York, 18 February 1985, pp. 30-31.

[4]Estimate by Wharton Econometrics, reported in *Business Week*, 18 February 1985, pp. 30-31.

The following average prices for cars in the United States were used: $11,200 in 1984, $9,970 in 1983, $8,734 in suppliers were to remain unchanged (that is, if there were no terms-of-trade effect). Since the two types of price are normally impossible to observe, however, actual estimates of the price effect tend to rely on a comparison of the domestic (P_1) and foreign (P_0) prices in the presence of export-restraint arrangements. The estimate (T), frequently referred to as the 'tariff equivalent', may be calculated according to the following formula:

$$T = \frac{(P_1 - P_0)}{P_0} . 100\%$$

Tariff equivalents of a number of export-restraint arrangements are presented in Table 1.[4] (Details on computation and sources of the data are included in the notes to the table.)

The use of price differentials as a measurement of tariff equivalents is open to a number of objections. First, the differentials may be due not only to export-restraint arrangements but also to other non-transparent barriers to trade. Secondly, at least a portion of the price differential may be due to improvements in the quality of the product (trading up), not just to the restrictive nature of the measure. Nevertheless, the figures reported in Table 1 provide some indication of the extent to which export-restraint arrangements introduce price differentials.

1982 and $7,500 in 1981. The 1984 and 1981 price estimates are those of Lori Consadori, head of the Washington-based organization Consumers for World Trade. It should be noted that the increases in import prices following the VER might be partly due to quality improvement. See Robert Feenstra, 'Voluntary Export Restraint in US Autos, 1980-81: Quality, Employment and Welfare Effects', in Robert E. Baldwin and Anne O. Krueger (eds), *The Structure and Evolution of Recent US Trade Policy* (Chicago and London: Chicago University Press, for the National Bureau of Economic Research, 1984).

[d]Based on estimates provided by the Bureau Européen des Unions Consommateurs (BEUC), Brussels, and the International Organization of Consumer Unions, the Hague.

[e]The estimates are based on the pre-tax difference between prices of video tape recorders in the Netherlands, which are the lowest in the European Community, and the pre-tax prices in other Community countries. The price differences were established for sixteen types of video tape recorders of three different systems (VHS, Beta and Video 2000) and reported by the BEUC.

[f]The estimates in brackets indicate exclusively increases in tariff equivalent due to reduction of the market shares for imported steel in the United States. They are based on press reports on price increases following imposition of the 1985 restraints (for example, *International Trade Reporter*, Washington, 27 February 1985). The Organisation for Economic Cooperation and Development (OECD) estimates that, prior to the introduction of the 1985 restraints, protection had increased the profit margins on Japanese sales in the American market by at least 10 per cent in 1984. This estimate is used as a proxy of the 1984 price differentials. 1985 price increases (reported in brackets) are added to the 1984 price differential in order to obtain tariff equivalents for 1985.

[g]The estimates are based on prices of export-quota transfers practised in Hong Kong in December 1984 (*Wall Street Journal*, New York, 7 December 1984). The bilateral agreement is covered by the MFA. The average price of cotton sweaters is assumed to be $10 and the average price of fashion jeans is assumed to be $15.

[h]Estimate from Z.A. Silberston, *The Multi-fibre Arrangement and the UK Economy* (London: Her Majesty's Stationery Office, 1984).

[i]Estimate from *Costs and Benefits of Protection* (Paris: OECD Secretariat, 1985) p. 109.

[j]The *Far Eastern Economic Review*, Hong Kong, reports that the premium on a quota unit for a dozen sweaters in 1985 was about HK$100, but that at the end of 1983 through to early 1984 the same quota traded at a peak of HK$700-800. The premium on a quota unit is used as a proxy for the price differential ($P_1 - P_0$). The average price of sweaters is estimated to be US$20.

The trade-weighted average of the tariff equivalents for the arrangements considered is of the order of 15 per cent. (A simple average is substantially higher.) This implies that the quota rent resulting from export-restraint arrangements might have been of the order of $27 billion.[5]

ECONOMIC RATIONALES

The distinctive features of export-restraint arrangements have attracted the attention of economists — especially in connection with quota rents. In particular, the standard notions of equivalence and non-equivalence between VERs, on the one hand, and import quotas and tariffs, on the other, have been applied to elucidate some of the effects and problems of export-restraint arrangements.[6]

It has been shown that export-restraint arrangements have important advantages for the exporting country over import tariffs because windfall gains resulting from the measures go to well-established exporting firms. By contrast, tariff revenue goes to the treasury of the importing country.

Business analysis of the windfall-gains issue, however, shows that the compensation aspect of export-restraint arrangements is not always as straightforward as suggested by economic theory. In reality, the windfall gain tends to be shared between the exporting firms and the distributors in the importing country. For example, in the case of the restraints on Japanese car exports to the United States in the fiscal year 1984-85, it has been estimated that 60 per cent of the windfall gains went to the American dealers and only 40 per cent to the Japanese car producers.[7]

From the viewpoint of the importing country, a system of export restraints in which a quota is subdivided among particular exporting countries not only entails all the costs of a global quota but also introduces an additional distortion, due to limited competition between exporting countries. Indeed, under a country-specific quota allocation, the (established) high-cost exporting firms of one country will be protected from competing with (new) low-cost exporters of another country and thus the average cost of imports will increase. In those circumstances a system of export restraints will be supported by vested interest groups in certain countries whose high-cost exporting firms attempt to maintain their share of the export market.

Moreover, for the major industrialized countries, where non-competitive behaviour characterizes a number of industries, the oligopolistic-coordination aspect of export-restraint arrangements may also be very important.[8] Export-restraint arrangements bring to the negotiating table representatives of production and trading firms more directly than is normal in negotiations on traditional instruments of protection. This means that the balance of mutual costs and advantages negotiated under export-restraint arrangements may be more complex than for other measures. The arrangements not only cover trade issues. They frequently include aspects of business strategy such as direct investments, marketing, transfer of technology, joint ventures and credit arrangements. Moreover, regulation through export-restraint arrangements designed to protect market niches, and to impose limits on marketing strategies, tends to be highly technical and very detailed in terms of product description.

Export-restraint arrangements frequently set up a forum for business-level discussions and establish permanent channels of communication for solving problems in determining market shares. At times the arrangements have more features in common with inter-industry understandings, resulting in cartelization (to which governments have given their stamp of approval), than with government-to-government agreements on trade. Export-restraint arrangements in industries such as electronics and automobiles are greatly encouraged by the current tendency for American and European industrial groups to ally themselves with Japanese competitors.

Oligopolistic coordination resulting in market-sharing deals under export-restraint arrangements may also protect major well-established exporting firms against competition from newcomers in their respective countries. Indeed, allocations of export quotas based on the previous representative period, as well as allocations based on lobbying the exporting country's government, tend to favour the large and well-established exporting firms rather than small exporters and newcomers. Furthermore, export-restraint arrangements are likely to facilitate price leadership by the protected domestic firms and lead to an increase in profits for both foreign and domestic firms.[9]

There are two principal ways in which an exporting firm may increase its competitive advantage over other producers:

either by undercutting its competitors on prices for goods or services, because it gets its costs down,

or by providing a better, if higher-cost, product that can command a premium price.

The first approach is related to product cycles; the second, to the 'trading up' phenomenon.

The product-cycle hypothesis suggests that new products move through a cycle, or a series of stages, in the course of their development and that their comparative-advantage position changes as they move through the cycle. The increasing use of export-restraint arrangements is likely to slow down product cycles. The argument is particularly relevant to consumer goods such as cars or electronics and may be briefly summarized as follows. As product markets mature, more and more households already own the products concerned and few want to replace them yet. At this point in a product cycle, the most efficient producers, confronted with falling production costs and a rising diffusion rate in international markets, should normally respond by cutting their prices in order to keep demand growing. Since export-restraint arrangements tend to apply to the largest, lowest-cost and most innovative and dynamic producers, the product cycle is likely to be considerably slower than if an equivalent level of protection in the importing country were provided through tariffs. The use of an export-restraint arrangement will thus benefit both jobs and profits in the non-competitive industries, at the expense of consumers, and as such it will be supported by both labour unions and producers.

An incentive to trade up is created when an export restraint is defined in volume terms and covers broad product categories. There is evidence to suggest that the trading-up effect of export-restraint arrangements may be more important than a *de facto* price rise for which the consumer is not compensated by a change in quality. Robert Feenstra, of Columbia University in New York, estimates, for example, that two thirds of the increase in price of Japanese imports following the VER on Japanese car exports negotiated with the United States during the period 1981-83 was due to improvements in quality.[10]

In this context it may be useful to distinguish between protectionist policies aiming at protecting *jobs* and protectionist policies aiming at protecting *profits*. Trading up is in most cases a profit-generating strategy having perhaps less direct impact on employment in the importing country than an increase in the volume of imports. As such, trading up may be acceptable to the importing country's labour unions, but less so to the country's producers.

Finally, as opposed to an import tariff applied on a most-favoured-nation (MFN) basis, export-restraint arrangements are discriminatory in nature. They are likely to benefit the trading interests of those exporting countries which do not participate in the arrangements.[11] Consequently, there is no reason for the governments in these countries to complain about the measures in the GATT forum. This contributes to the silence surrounding 'grey area' measures.

Note, however, that the potential benefits of non-participation (and their corollary, the potential losses of participating exporters and their governments) are likely to be reduced by the effort an importing-country government will usually make to prevent the market shares of non-participating exporters from growing.

Table 2 summarizes a number of distinctive features of export-restraint arrangements as far as the transfer of income between different groups is concerned. An attempt to specify the main factors supporting and opposing the choice of export-restraint arrangements as an alternative to MFN tariffs is presented in columns 4 and 5 of the table.

In four out of the six cases discussed, the major beneficiaries of export-restraint arrangements are established exporting firms in exporting countries, in one case technologically-retarded producers in the importing country and in still another case, possibly, non-participating countries. The major losers are in four cases consumers in the importing country, in one case producers in the importing country, in one case the treasury in the importing country and in still other cases

TABLE 2

Economic Features of Export-restraint Arrangements and MFN Import Tariffs Compared

	Comparison		*ERAs preferred to import tariff*	
Economic issue 1	*ERA* 2	*Import tariff (MFN)* 3	*Major beneficiary* 4	*Major loser* 5
Windfall gains	To exporters	To importing country's treasury	Established exporters	Consumers and treasury in importing country
Competition between exporting countries	Limited	Little impact	High-cost established exporters	Consumers in importing country, new low-cost exporting countries
International oligopolistic coordination	Likely to increase	Not likely to increase	Large and established exporters	Consumers in importing country, newcomers to export sector in exporting country
Product cycle	Retarded	Little impact	Technologically-retarded producers in importing countries	Consumers in importing country
Trading up	Possible	Little scope	Established exporters	Producers (but not labour unions) in importing country
Market access for non-participants	Improvement possible for exporting countries not participating in the ERA	—	Exporting countries not participating in the ERA	Exporters and exporting-country government participating in the ERA

newcomers to the export sector in the exporting country and new low-cost exporting countries. Moreover, since export-restraint arrangements frequently benefit the non-participants, they are likely to result in a *de facto* discrimination against the participating exporters and their governments. While interpreting the results, it should be borne in mind that to obtain the net impact of an export-restraint arrangement on the different groups it would be necessary to aggregate the separate effects listed. Nevertheless, the distinctive characteristics of transfers of income under export-restraint arrangements clearly suggest that a pay-them-off approach and discrimination against the most efficient exporters are the basic economic rationale of 'grey area' measures.

DECISION MAKING

The distinctive pattern of alliances in 'grey area' measures may not be understood without also taking into account the process of decision making.

The net cost of protection — that is, the effect of protection on efficiency — is typically eight to ten times less than the transfer from consumers to producers.[12] In democratic societies, politicians usually refrain from making nearly zero-sum transfer decisions,[13] all the more so given that, *ceteris paribus*, losses in revenue give rise to political protest outweighing political support resulting from equivalent gains in revenue. A rational politician, confronted with a request for protection involving a nearly zero-sum transfer, attempts to push an affirmative decision towards a non-decision as far as alternative trade-policy options allow.[14] 'Grey area' measures offer a particularly suitable means of non-decision policy, for it is the government of the exporting country, rather than the government of the importing country, that bears the major responsibility for implementing the measures. This helps the importing country's government to defuse the political cost of the decision without preventing it from harvesting the political gratitude of the protected domestic industry.

The political cost of protection implemented through various types of export-restraint arrangement is also considerably reduced because the arrangements are less transparent than the traditional instruments of trade policy and therefore they provide less incentive for consumers to protest.

In a well-known article, Richard Cooper, the American economist, distinguishes between 'low' (technical) and 'high' (executive or legislative) policy tracks.[15] The 'low' policy track, relying on anti-dumping or subsidy-countervailing actions, should be used only in instances of 'unfair export pricing'. The increasing willingness of exporters to accept export-restraint arrangements in response to the threat of the imposition of anti-dumping or subsidy-countervailing duties might also suggest that these two mechanisms, too, are being used increasingly to protect domestic producers from 'fair' foreign competition.[16] The approach is obviously preferable for 'high' policy makers because it reduces their political responsibility for protection. It also encourages so-called 'multiple harassment' in trade policy.[17] A foreign export firm may be influenced by 'less than fair value' complaints by industry in the importing country (low track) or a possibility of protectionist action by the importing country's government (high track). It has been shown for the United States, for example, that the greater the incidence of complaints in a particular industry, the lower the rate of growth of imports into the country.[18] In particular, there is evidence to suggest that the pricing behaviour of foreign firms exporting to the United States during the period 1976-81 became increasingly sensitive to the threat of anti-dumping duties being imposed.[19]

The threat of these regulatory actions and high legal fees[20] in 'less than fair value' cases seem to encourage the negotiation of export-restraint arrangements. In addition, there are the incentives mentioned earlier, the most prominent of which is the opportunity to capture quota rents.

The growing importance of 'grey area' measures coincided with a greater role played by foreign producers in the trade-policy bargaining of importing countries. Indeed, the corollary of the increased oligopolistic coordination is a more active role of industry associations from exporting countries in lobbying related to trade policies of importing countries. Without a voting bloc in the United States or in the countries of Western Europe, foreign exporters such as Japanese firms can exercise very little leverage over legislators or the bureaucracy. Consequently, their major effort has been directed at seeking and building alliances with the importing country's pressure groups, who do have constituencies. For example, Japanese automobile makers, in their 1984 lobbying against restrictions on their exports to the United States, relied on support from the American International Dealers Association and several American car producers who engaged in joint ventures with the Japanese firms.[21] Also in 1984, steelmakers in the European Community and Japan lobbied the United States Administration heavily to head off a feared imposition of additional restraints on steel sales, extensively using Washington law firms. The function of lobbyists in the United States has become so important and lucrative in recent years that, according to Japan's Ministry of Foreign Affairs, the lobbyists themselves are frequently stirring up trade friction between the two countries in order to be called to alleviate the friction later.[22] Without doubt, the changing nature of foreign interest-group involvement in the making of trade policy in the major importing countries has contributed to the proliferation of export-restraint arrangements in international trade.

Another important advantage of negotiations on 'grey area' measures to the importing country is that the arrangements usually specify details concerning both export restraint and compensation, so avoiding the possibility of compensation becoming a separate issue. What is more, the bilateral character of export-restraint arrangements enables the importing country to 'isolate' the most disruptive suppliers and, in that way, to minimize the risk of retaliation. This signifies that certain protectionist actions which would have been infeasible when implemented through non-discriminatory tariffs, due to a high risk of retaliation, become perfectly feasible under export-restraint arrangements. In such circumstances the export-restraint arrangements are clearly disadvantageous to the exporting firms and consumers in the importing country.

Under export-restraint arrangements it is the exporting country's government which allocates the quotas among domestic producers or ensures that minimum export prices are respected. The producers lobby their governments for the rents attached to the right to export, so making it easier for an exporting country's government to accept export-restraint arrangements, especially in cases when the government wants to increase its control over domestic industry.

The distinction between unilateral and bilateral 'grey area' measures may have little economic significance because the measures are usually based on an overt or covert bilateral agreement or at least some form of tacit coordination. But the distinction may have a legal and political *raison d'être*. The fact that many export-restraint arrangements are presented as unilateral measures and are implemented by the governments of exporting, rather than importing, countries considerably reduces the scope for legal action on the part of consumers in the importing country.

The preference for export-restraint arrangements may also result from the fact that there may be reduced possibilities to undertake action against the imposition of export restraints at an international level. In fact, trading partners, having negotiated and 'agreed' to the measures, are badly placed to complain about them in a multilateral forum such as the GATT — especially if, in that forum, export-restraint arrangements are regarded by many contracting parties as being contrary to GATT articles. Public statements in that direction have been made, for example, by West Germany, Sweden and Switzerland in response to the requests by the United States in 1986 for export-restraint arrangements on machine tools.[23]

Table 3 summarizes a number of distinctive decision-making features. Columns 4 and 5 attempt to identify the major beneficiaries and losers from 'grey area' measures. It may be seen that, out of the eight cases considered, export-restraint arrangements are in five cases of interest to an importing country's government, in two cases to exporters and in another two cases to the exporting country's government. The major losers from export-restraint arrangements are consumers in the importing country (five cases) and in one case the treasury of the importing country. The two instances where exporters are classified as 'losers' concern the relatively marginal cases of government control over domestic industry and of a possible benefit of less protection due to the risk of retaliation. As in the case of Table 2, it should be borne in mind that to obtain the net impact of an export-restraint arrangement it would be necessary to aggregate the separate

TABLE 3

Decision Making on Export-restraint Arrangements and MFN Import Tariffs Compared

	Comparison		*ERAs preferred to import tariffs*	
Feature 1	*ERAs* 2	*Tariff (MFN)* 3	*Major beneficiary* 4	*Major loser* 5
Importing country's responsibility for protectionist policies	Minimized	High	Importing country's government	Consumers in importing country
Transparency	Low	High	Importing country's government	Consumers in importing country
Level of decision making	'Low'	'High'	Importing country's government	Consumers in importing country
Exporter's influence in importing country	Increased	Little	Exporters	Not determined
Risk of retaliation	Minimized	Substantial	Importing country's government	Exporters and consumers in importing country
Government control of export industry	Increased	Stationary	Exporting country's government	Exporters
Possibility of legal action in importing country and at international level	Reduced	Significant	Importing country's government	Consumers in importing country
Exporters' pay-off	Substantial	None	Exporters and exporting country's government	Treasury of importing country

effects. Nevertheless, the analysis of decision making affecting export-restraint arrangements clearly suggests that the political respectability of protectionist actions is greatly increased under such arrangements.

PROPOSALS FOR TRADE LIBERALIZATION

Export-restraint arrangements are the most dangerous form of the 'new protectionism'. They cover at least 10 per cent of world trade and their impact on trade flows is very significant. Protectionist policies implemented through such measures are particularly trade distorting. Being discriminatory, export-restraint arrangements increase the economic cost of protection, as compared with alternative non-discriminatory measures resulting in an equivalent overall reduction of imports of the product in question. Furthermore, they often have the effect of cartelizing the industry in the exporting country; and they reinforce oligopolistic coordination at international level.

Export-restraint arrangements clearly undermine the rules of the international trading system. Not only do they contravene such basic principles of the GATT system as non-discrimination, transparency and preference for price (tariff) rather than administrative trade measures. They also signify a further shift from a 'rule-oriented' to a 'power-oriented' trading system.

Finally, export-restraint arrangements, if not curbed by common action by the major trading countries, have an inherent tendency to expand. The attractiveness of such arrangements is that exporters can be bought off and the patterns of decision making which are entailed reduce the political cost of protection; and, as a result, protectionist demands which would be politically hard to satisfy through traditional instruments of trade policy become much easier to assuage through export-restraint arrangements. Moreover, in restricting essentially bilateral trade flows, export-restraint arrangements have a natural tendency to lead to new restrictions on other trading partners in order to bring their market shares into line.[24]

While considering possible ways and means of curbing the use of export-restraint arrangements, it is essential to take into account who benefits from, and who pays the cost of, these measures.

Proposal 1

International trade rules should contain specific provisions prohibiting governments from concluding, seeking or inciting export-restraint arrangements.

Since export-restraint arrangements shift responsibility for the administration of the restrictions to the exporting country, it is frequently argued that the arrangements are contrary to Article XIII of the GATT, which prohibits both discriminatory export restrictions and discriminatory import restrictions.[25] Those who drafted Article XIII, however, were not thinking of export-restraint arrangements; they had in mind export controls, limiting supplies to other countries. Export-restraint arrangements arise from protectionist pressures in importing rather than exporting countries; they are designed to protect markets, not sources of supply. Although they are implemented at the exporting country's border, export-restraint arrangements are substitutes for import restrictions, not straightforward export restraints. To evaluate them against the background of GATT rules on export controls does not seem to be an appropriate way of putting a stop to them. The major shortcoming of such an approach is that it condemns the victim (the exporting country) rather than the real instigator of the protectionism (the importing country) and misses the whole point of what is happening.

As shown in Table 3, one of the major beneficiaries of policies implemented under export-restraint arrangements tends to be the importing country's government. Accordingly, multilateral action to curb the use of export-restraint arrangements should also be directed at that government. It might be desirable to agree on a new international requirement that governments should not conclude, seek or incite export-restraint arrangements aimed at reducing imports.

The use of export-restraint arrangements for reasons related to unfair trade practices might continue to be allowed under strictly defined conditions. The GATT Anti-dumping Code, for example, currently permits, under Article 7, the use of price undertakings as a substitute for anti-dumping duties. The GATT Code on Subsidies and Countervailing Duties allows, under Article 4(5), the use of price undertakings and, according to some interpretations, the use of quantitative export restraints in place of countervailing duties. The long debate over a 'selectivity' provision in a safeguard code on emergency protection, elaborating Article XIX of the GATT, suggests though that there is not much confidence at present in the readiness of GATT member countries to respect the letter and spirit of 'strictly defined conditions' under which there can be exceptions to general rules.

A ban on export-restraint arrangements could not be effective, however, unless it was supplemented by a number of additional measures. Obviously the importing country's government should not be reasonably deprived of its right to brief foreign governments on its country's pending protectionist legislation, on cases of 'unfair trade' investigations or on its country's trade interests. It is known, however, that many government-to-government contacts preceding the establishment of VERs are characterized as 'consultations' and 'briefings'. International trade rules should thus be designed in a way which discourages this type of practice. In addition, many export-restraint arrangements are either disguised or evasive as to the nature of the commitments made and the nature of government involvement in them. Consequently, it might be difficult to identify them as trade-restrictive practices as long as there is no appropriate surveillance mechanism in place.

TABLE 4

Export-restraint Arrangements by Product and Type of Restriction, 1986-87

Importing country/ exporting country	*Product*	*Type of restriction*	*Duration*
STEEL AND STEEL PRODUCTS			
Australia/South Korea	Steel products	Export floor prices	1987
European Community/Australia	Steel	VRA: monitoring of export prices and export quotas	1986
European Community/Austria	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Brazil	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Bulgaria	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Czechoslovakia	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Finland	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Hungary	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Japan	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/South Korea	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/Norway	Steel	'Consulting arrangement'	1986-87
European Community/Poland	Steel	VRA: monitoring of export prices and export quotas	1986-87

European Community/Romania	Steel	VRA: monitoring of export prices and export quotas	1986-87
European Community/South Africa	Steel	VRA: monitoring of export prices and export quotas	1986
European Community/Sweden	Steel	'Consulting arrangement'	1986-87
European Community/Venezuela	Steel	VRA: monitoring of export prices and export quotas (72,000 tonnes)	1987
United States/Brazil[a]	Steel pipes and tubes	*Ad hoc* request for reduction of shipments due to weak demand	1986
United States/European Community[b]	Steel pipes and tubes	*Ad hoc* request for reduction of shipments due to weak demand	1986
United States/Japan[a]	Steel pipes and tubes	*Ad hoc* request for reduction of shipments due to weak demand	1986
United States/South Korea[a]	Steel pipes and tubes	*Ad hoc* request for reduction of shipments due to weak demand	1986
United States/European Community[b]	Semi-finished steel	VRA specifying export quota: 600,000 tonnes in 1986	1985-89
United States/European Community	Carbon steel	VRA specifying export quota	1986-89
United States/Sweden	Finished steel	'Consulting arrangement'	1986-87
United States/Argentina	Steel and steel products	VRA specifying export quotas	1985-89
United States/Australia	Steel and steel products	VRA specifying export quotas	1984-90
United States/Austria	Steel and steel products	VRA specifying export quotas	1985-89
United States/Brazil	Steel and steel products	VRA specifying export quotas	1984-90
United States/Bulgaria	Steel and steel products	VRA specifying export quotas	1985-89
United States/Czechoslovakia	Steel and steel products	VRA specifying export quotas	1985-89
United States/European Community	Steel and steel products	VRA specifying export quotas	1984-89
United States/Finland	Steel and steel products	VRA specifying export quotas	1984-90
United States/East Germany	Steel and steel products	VRA specifying export quotas	1985-89

TABLE 4 (continued)

Importing country/ exporting country	*Product*	*Type of restriction*	*Duration*
United States/Hungary	Steel and steel products	VRA specifying export quotas	1985-89
United States/Japan	Steel and steel products	VRA specifying export quotas	1984-90
United States/South Korea	Steel and steel products	VRA specifying export quotas	1984-90
United States/Mexico	Steel and steel products	VRA specifying export quotas	1984-90
United States/Poland	Steel and steel products	VRA specifying export quotas	1985-89
United States/Portugal (EC)	Steel and steel products	VRA specifying export quotas	1986-89
United States/Romania	Steel and steel products	VRA specifying export quotas	1985-89
United States/South Africa	Steel and steel products	VRA specifying export quotas	1984-90
United States/Spain	Steel and steel products	VRA specifying export quotas	1984-90
United States/Venezuela	Steel and steel products	VRA specifying export quotas	1985-90
United States/Yugoslavia	Steel and steel products	VRA specifying export quotas	1986-89
United States/Taiwan	Steel and steel products	VRA specifying export quotas: 20,000 tonnes per month	1986-87
MACHINE TOOLS			
European Community/Japan	NC lathes and machining centres	VER: price-monitoring system and export quotas	1986-87
United Kingdom (EC)/Japan[c]	NC lathes and machining centres	Industry-to-industry arrangement	1985-87
United States/West Germany (EC)	Machine tools	Industry-to-industry arrangement specifying export quotas	1987
United States/Japan	Machining centres, lathes, punching and shearing machines and milling machines	VRA specifying export quotas	1986-91

United States/Switzerland	Machine tools	Industry-to-industry arrangement specifying export quotas	1987
United States/Taiwan	Machining centres, lathes and milling machines	VRA specifying export quotas	1987
AUTOMOBILES AND TRANSPORT EQUIPMENT			
Canada/Japan	Automobiles	VER specifying export quota: 240,000 vehicles in 1986	1986-87
Canada/South Korea	Automobiles	Prudent marketing arrangement: industry export quota of 100,000 vehicles in 1986	1986-87
European Community/Japan	Automobiles	VER specifying export quota: maximum 10 per cent of the European Community's market	1986-87
European Community/Japan	Motorcycles	VER specifying export quota	1983-87
European Community/Japan	Light commercial vehicles and forklift trucks	VER specifying export quotas and monitoring of export prices	1986-87
France (EC)/Japan[c]	Automobiles	VER specifying export quota	1977-87
Italy (EC)/Japan[c]	Jeeps and other automobiles	OMA specifying export and import quota: 3,400 units	1977-87
Italy (EC)/Japan[c]	Motorcycles up to 380 cc	OMA specifying export and import quota: 1,800 units	1977-87
Norway/South Korea	Automobiles and pneumatic tyres	VER	1985-89
Portugal (EC)/Japan[c]	Automobiles	VER	1987
Spain (EC)/Japan[c]	Automobiles	VER	1987
United Kingdom (EC)/Japan[c]	Automobiles	Industry-to-industry arrangement specifying export quotas	1980-87
United Kingdom (EC)/Japan[c]	Light commercial vehicles up to 3½ tons	Industry-to-industry arrangement specifying export quota	1975-87

TABLE 4 (continued)

Importing country/ exporting country	*Product*	*Type of restriction*	*Duration*
United Kingdom (EC)/Japan[c]	Heavy commercial vehicles over 3½ tons	Industry-to-industry understanding that shipments will not be made	1975-87
United States/Japan	Automobiles	VER specifying export quota: 2.3 million vehicles in fiscal years 1985/86 and 1986/87	1981-87
ELECTRONIC PRODUCTS			
European Community/Japan	Colour television sets	Monitoring of export quantities and export prices	1983-87
European Community/Japan	Colour television tubes	Monitoring of export quantities and export prices	1983-87
European Community/Japan	Hi-fi equipment	Monitoring of export quantities and export prices	1983-87
European Community/Japan	Video tape recorders	Monitoring of export quantities and export prices	1983-87
European Community/South Korea	Video tape recorders	VER specifying export quota and import-monitoring system	1986-87
France (EC)/Japan	Video tape recorders	VER *or export monitoring by the industry*	1983-
Italy (EC)/Japan	Car radios, hi-fi radios, radio recorders, television sets, television cameras and television antennae	VRA specifying import and export quotas: 1,417 million lire	1977-87
United Kingdom (EC)/South Korea	Television sets	Industry-to-industry arrangement	1985-
United States/Japan	Semi-conductors	*Government-to-government arrangement* specifying price undertakings and market-share forecasts	1986-91

United States/South Korea	Video cassette recorders, microwave ovens, televisions	VER	1987-
FOOTWEAR			
Canada/South Korea	Women's and girls' leather footwear	VER specifying export quota	1986
Canada/Italy	Footwear	VER specifying export quota	1987
Canada/Spain (EC)	Footwear	VER specifying export quota	1987
Canada/Taiwan	Footwear	VER specifying export quota	1987
Norway/Japan	Footwear	Industry-to-industry arrangement	1986-87
Norway/South Korea	Footwear	Industry-to-industry arrangement	1986-87
United Kingdom (EC)/South Korea	Footwear	Industry-to-industry arrangement	1977-87
United Kingdom (EC)/Taiwan	Non-rubber footwear	Industry-to-industry arrangement	1977-86
TEXTILES AND CLOTHING *(restraints outside the scope of MFA IV)*[d]			
Austria/Singapore	Woven blouses	Surveillance system	1987-
Canada/North Korea	Clothing	VRA specifying export quotas	1987-91
Canada/Maldives	Textiles	VRA specifying export quotas	1986-90
Canada/Pakistan	Textiles	VRA specifying export quotas	1985-86
Canada/Vietnam	Textiles	VRA specifying export quotas	1986-91
European Community/Morocco	Textiles	VRA specifying export quotas	1982-86
European Community/Tunisia	Textiles	VRA specifying export quotas	1985-86
European Community/Turkey	Textiles	Industry-to-industry arrangement	1985-86
Finland/China	Textiles	VRA specifying export quotas	1987-90
Finland/Pakistan	Undershirts and bed linen	VRA specifying export quotas	1986-91
Japan/China[e]	Cotton goods	VRA specifying export quotas	1985-86
Japan/China[e]	Silk yarn	VRA specifying export quotas	1986-87

TABLE 4 (continued)

Importing country/ exporting country	*Product*	*Type of restriction*	*Duration*
Japan/South Korea	Cotton yarn	Industry export quota: 285,000 bales a year	1983-87
Japan/South Korea	Silk yarn and fabrics	VRA specifying export quotas	1986
Japan/Pakistan[e]	Cotton goods	VRA specifying export quotas	1985-86
Norway/China	Textiles	VRA specifying export quotas	1986-88
United States/China	Textiles and clothing	VRA specifying export quotas	1986-87
United States/Costa Rica	Textiles	VRA specifying export quotas	1984-87
United States/Egypt	Textiles and clothing	VRA specifying export quotas	1986-87
United States/Israel	Textiles and clothing	VRA specifying export quotas	1985-86
United States/Maldives	Wool sweaters	VRA specifying export quotas	1985-91
United States/Mauritius	Textiles and clothing	VRA specifying export quotas	1986-90
United States/Pakistan	Textiles and clothing	VRA specifying export quotas	1986-87
United States/South Africa	Textiles	VRA specifying export quota (a 4 per cent increase in market share for 1986)	1986
United States/Taiwan	Textiles	VRA specifying export quotas	1986-91
AGRICULTURAL PRODUCTS			
European Community/Brazil	Manioc	OMA specifying export quotas	1986-89
European Community/China	Manioc	OMA specifying export quotas	1987-90
European Community/Indonesia	Manioc	OMA specifying export quotas	1986-89
European Community/Thailand	Manioc	OMA specifying export quotas: 5.5 million tonnes a year	1982-90

European Community/Vietnam	Manioc	OMA specifying export quotas	1987-90
European Community/Argentina	Apples	VRA specifying export quotas	1986
European Community/Australia	Apples	VRA specifying export quotas	1986
European Community/Chile	Apples	VRA specifying export quotas	1986
European Community/New Zealand	Apples	VRA specifying export quotas	1986
European Community/South Africa	Apples	VRA specifying export quotas	1986
European Community/Argentina	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Australia	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Austria	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Bulgaria	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Czechoslovakia	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Hungary	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Iceland	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/New Zealand	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Poland	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Romania	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86
European Community/Yugoslavia	Live sheep or goats and meat thereof	OMA specifying export and import quotas	1980-86

TABLE 4 (continued)

Importing country/ exporting country	*Product*	*Type of restriction*	*Duration*
European Community/Canada	Beef and veal	VER specifying export quotas: 10,668 tons a year	1985-88
European Community/New Zealand	Butter	OMA specifying import quota	1986-88
European Community/Uruguay	Mutton and lamb	VRA specifying export restraint	1985-88
OTHER			
European Community/Sweden	Kraftliner	Industry-to-industry arrangement	1986
West Germany (EC)/South Korea	Stainless steel flatware	Industry-to-industry arrangement	1986
Norway/South Korea	Leather clothing	VER	1985-89
United Kingdom (EC)/South Korea	Stainless steel flatware	Industry-to-industry arrangement	1986
United States/Canada	Softwood lumber	'Voluntary' export charge	1987-

Note: Where the 'duration' is given as 1986, it does not mean that the export-restraint arrangement no longer exists, but rather that the author is not able to confirm its existence in 1987.
[a]The *ad hoc* requests are related to global steel arrangements listed lower in the table.
[b]Does not include Portugal and Spain.
[c]Does not supersede existing bilateral arrangements concluded by Japan with the European Community.
[d]Arrangements involving countries which were not members of the MFA IV on 31 March 1987.
[e]Restraints asked for by Japan. It is not known if the exporting country has agreed.

Proposal 2

Third countries which feel the spill-over effects of export-restraint arrangements should be encouraged to complain about the arrangements in the GATT forum.

Since most export-restraint arrangements are (informally) agreed breaches of the General Agreement, it is unlikely that the participating exporting countries would challenge the arrangements in the GATT forum. The only realistic way of creating such a challenge is to encourage third-country complaints about the incompatibility of export-restraint arrangements with GATT rules.[26] The following two mechanisms might be of interest in that context:

(a) Trade-policy developments which might constitute a breach of the ban on export-restraint arrangements should be carefully scrutinized under an appropriate surveillance mechanism. The surveillance might be based on request-for-information procedures. In order to increase the public awareness of the detrimental effect of particular export-restraint arrangements, the surveillance body should also evaluate the trade effects and welfare costs of the arrangements.

(b) Periodic reviews of developments related to export-restraint arrangements should be conducted in a way which encourages third countries to voice their concerns about the detrimental effects of particular export-restraint arrangements on their trade. The effectiveness of such reviews could be considerably enhanced by allowing trading firms affected by export-restraint arrangements to testify.

Proposal 3

Government use of export-restraint arrangements should be subjected to domestic procedures and criteria which are just as strict as those which relate to the use of other instruments of protection.

As shown in the previous section, many export-restraint arrangements are induced by the fact that, in the making of trade policy, there is an asymmetry in domestic regulations bearing on traditional instruments of protection, on the one hand, and export-restraint arrangements, on the other. Indeed, in a number of countries the scope for protection is considerably greater through export-restraint arrangements than through tariffs or import quotas, the use of which is subject to strict procedures and criteria. This asymmetry in trade regulations and procedures should be removed if the proliferation of export-restraint arrangements is to be halted and reversed.

Moreover, since many export-restraint arrangements tend to reinforce oligopolistic coordination at both domestic and international levels, the operation of such measures should be put under the close scrutiny of anti-trust or competition authorities in the countries concerned.

1. The opinions expressed in this article are those of the author and are not necessarily those of the Secretariat of the General Agreement on Tariffs and Trade (GATT). Helpful comments from Richard Blackhurst, John Croome and Frieder Roessler on an earlier draft are gratefully acknowledged.

2. The figure includes export-restraint arrangements involving individual member countries of the European Community.

3. Restrictions under the Multi-fibre Arrangement (MFA) are not in legal terms 'grey area' measures, for they are covered by the MFA itself, which is a negotiated multilateral derogation from the GATT. The formal title of the MFA, first negotiated in 1973, is the Arrangement Regarding International Trade in Textiles.

4. For other estimates, see David G. Tarr and Morris E. Morkre, *Aggregate Costs to the United States of Tariffs and Quotas on Imports* (Washington: Federal Trade Commission, 1984), Morkre, *Import Quotas on Textiles: the Welfare Effects of United States Restrictions on Hong Kong* (Washington: Federal Trade Commission, 1984) and David Greenaway and Brian Hindley, *What Britain Pays for Voluntary Export Restraints*, Thames Essay No. 43 (London: Trade Policy Research Centre, 1985).

5. The Organisation for Economic Cooperation and Development (OECD) estimates that in 1984 the annual transfer from OECD consumers to exporters of textiles and clothing in newly industrializing countries in East Asia was at least $2 billion, equivalent to around 4 per cent of the total value of exports by newly industrializing countries to the OECD region. See *Costs and Benefits of Protection* (Paris: OECD Secretariat, 1985) p. 109.

6. The analysis was initiated by C. Fred Bergsten, 'On the Non-equivalence of Import Quotas and "Voluntary" Export Restraints', in Bergsten (ed.), *Towards a New World Trade Policy* (Lexington, Massachusetts: D.C. Heath, 1975) and developed in the following: Wendy E. Takacs, 'The Non-equivalence of Tariffs, Import Quotas and Voluntary Export Restraints', *Journal of International Economics*, Amsterdam, November 1978; Tracy Murray, Wilson Schmidt and Ingo Walter, 'On the Equivalence of Import Quotas and Voluntary Export Restraint', *Journal of International Economics*, February 1983; and Kent Jones, 'The Political Economy of Voluntary Export Restraint Agreements', *Kyklos*, Basle, Vol. 37, No. 1, 1984.

7. Estimate by Charles Lieberman, then of Shearson Lehman Bros, reported in *Business Week*, New York, 18 February 1985.

8. When the leading four firms control 40 per cent or more of the market in a given product range, it is fair to assume that oligopoly is beginning to rear its head. It has been estimated, for example, that in the 1970s more than half of all manufacturing industries in the United States could be categorized as oligopolistic. See F.M. Scherer, *Industrial Market Structure and Economic Performance*, 2nd edition (Chicago: Rand McNally, 1980).

9. Richard Harris, 'Why Voluntary Export Restraints are "Voluntary"', *Canadian Journal of Economics*, Toronto, November 1985.

10. Robert C. Feenstra, 'Voluntary Export Restraint in US Autos, 1980-81: Quality, Employment and Welfare Effects', in Robert E. Baldwin and Anne O. Krueger (eds), *The Structure and Evolution of Recent US Trade Policy* (Chicago and London: Chicago University Press, for the National Bureau of Economic Research, 1984) pp. 53-54.

11. For example, in 1984 the United States Administration negotiated export-restraint arrangements with fourteen steel-producing countries, but imports in 1985 came from 76 countries, including eighteen which do not have any steel mills. Steel exporters in Eastern Europe, not participating in the export-restraint arrangements, were claimed to profit most handsomely from them. See *International Herald Tribune*, Paris, 2 October 1985.

12. Dale W. Larson, *The Cost of Import Protection in the United States* (Washington: United States Department of the Treasury, 1979).

13. Lester Thurow, *The Zero-sum Society* (New York: Basic Books, 1980).

14. J. Michael Finger, 'The Industry-country Incidence of [Less than Fair Value] Cases in US Import Trade', *Quarterly Review of Economics and Business*, Urbana-Champaign, Illinois, Summer 1981.

15. Richard N. Cooper, 'Trade Policy is Foreign Policy', *Foreign Policy*, New York, Winter 1972-73.
16. Christopher Norall, 'New Trends in Anti-dumping Practice in Brussels', *The World Economy*, London, March 1986.
17. Harald B. Malmgren, 'Significance of Trade Policies in the World Economic Outlook', *The World Economy*, October 1977.
18. Finger, H. Keith Hall and Douglas R. Nelson, 'The Political Economy of Administered Protection', *American Economic Review*, Menasha, Wisconsin, June 1982.
19. Mark G. Herander and J. Brad Schwartz, 'An Empirical Test of the Impact of the Threat of US Trade Policy: the Case of Anti-dumping Duties', *Southern Economic Journal*, Chapel Hill, North Carolina, July 1984.
20. The legal fees that exporting firms accused of dumping or market disruption have to pay may be very substantial. See John H. Jackson, 'Perspectives on the Jurisprudence of International Trade: Costs and Benefits of Legal Procedures in the United States', *Michigan Law Review*, Ann Arbor, April-May 1984.
21. *Business Week*, 30 July 1984, p. 52.
22. *Japan Economic Journal*, Tokyo, 27 November 1984.
23. See, for example, *Developments in the Trading System*, GATT Document L/6087 (Geneva: GATT Secretariat, 1986) para. 9.
24. For other mechanisms which cause protectionism to spread, although not unique to export-restraint arrangements, see Richard Blackhurst, Nicolas Marian and Jan Tumlir, *Adjustment, Trade and Growth in Developed and Developing Countries*, GATT Studies in International Trade No. 6 (Geneva: GATT Secretariat, 1978).
25. The approach was suggested, for example, in an address by Arthur Dunkel, Director-General of the GATT, to the Keidanren Forum, Tokyo, 15 March 1985.
26. It may be legal for GATT member countries to conclude bilateral agreements such as export-restraint arrangements modifying the application of certain GATT rules in their mutual relations, provided that the agreements do not adversely affect the interests of other GATT member countries. There is thus some ambiguity concerning the legal status of export-restraint arrangements in the GATT. One way of limiting the ambiguity would be to declare such arrangements contrary to the interests of developing-country members of the GATT or to the general objectives of the GATT. The other way would be to create a permanent GATT body (for example, along the lines of the Textiles Surveillance Body) competent to decide the legal status of every export-restraint arrangement against the background of the General Agreement.

Dr Johnson on the Merit of Eating Peacock's Brains

'MANY things which are false are transmitted from book to book, and gain credit in the world. One of these is the cry against the evil of luxury. Now the truth is that luxury produces much good. Take the luxury of building in London. Does it not produce real advantage in the conveniency and elegance of accommodation, and this all from the exertion of industry? People will tell you, with a melancholy face, how many builders are in gaol. It is plain they are in gaol, not for building; for rents are not fallen. A man gives half a guinea for a dish of green peas. How much gardening does this occasion? How many labourers must the competition to have