

PRIME MINISTERTRADE POLICY

Norman Tebbit's paper of 28 February contains some sound conclusions.

1. We should continue to work for the open trading system.
2. We should not disarm unilaterally.
3. We should continue to press for liberalisation of the internal EEC market for both goods and services.
4. Prime British objectives are to liberalise services and reduce NICs' trade barriers.

However, it would be a mistake to drag our heels concerning a new GATT round. Conclusion 14(e) and 14(g) could be strengthened.

3 of (E) 84(2)

A new round of GATT should be sought positively

Negotiations for freer trade are an opportunity rather than a threat. We need to break out of the siege mentality which has gripped Europe since 1974: too depressed to feel able to liberalise, but needing to liberalise to grow; blocking structural change and trade by interventionist industrial and agricultural policies, which have sown the seeds of the trade war with the USA (first steel, then gluten feed). It is absurd that just as the world economy is recovering, we risk retreating into the stifling restrictions of the 1930s. We need a climate like that of pre-1973, in which world trade grew annually by 8 per cent, and world production by 5 per cent. OECD growth rates are now only half as great, and will not significantly reduce unemployment.

Our position as host of the 1984 Summit

As Summit host and a country traditionally committed to free trade, we could become the natural leader rather than just a supporter of other's initiatives. The aims set out on page 3 of the officials' paper are good ones, and should be pursued vigorously.

There will be two main obstacles to progress. Although tariffs are now low and much trade is unrestricted, other policies like

industrial intervention and subsidy, the CAP, Japan's macro-policy and some NICs' artificially high exchange rates are strongly protectionist. There is a danger that these will not be on the agenda of trade negotiations. They ought to be discussed at the Summit and seen as part of the general restrictions on trade. The second is that trade policy is pursued mainly on behalf of producers rather than consumers. The consumers' views ought to be thought out more carefully. We review below some of the specific problems.

Subsidies. We do not have enough resources to win a subsidy war, as the DTI point out. Subsidising inefficient domestic producers prevents tax reductions and strengthens the dependent relationship of parts of industry on Government. It has never succeeded in avoiding the eventual loss of jobs that follows from structural change. The UK should lead in arguing for a reduction in subsidy, and should pursue this policy at home on a unilateral basis. There are cheaper ways of protecting industries than subsidising them.

VRAs. The GATT round will produce pressure to negotiate on these. They can be useful and flexible instruments. They are not, however, without costs. In the case of cars, even on DTI figures car-buyers would save £700 million a year and £400 million of improvement to the balance of payments would come from abolishing VRAs and moving to a competitive price level. In video recorders, the Consumer Association argued that the 1983 agreement with Japan raised prices by £100 a set, or more than 25 per cent.


The encouragement of inward investment in assembly is not an attractive argument for an advanced country with thousands of options. The cost per job created is often very great. The premiums we pay every year on our Japanese cars is as much again as the total grants Nissan may expect to get.

VRAs are expensive because they invite foreigners to charge the highest price for their limited quota. In 1979, UK clothing quotas at their peak were selling for premiums of 160 per cent in Hong Kong. If we made respectable citizens of the VRAs by turning them into tariffs, the Government rather than foreign suppliers would lay hold of this surplus revenue.


The impact and incidental effects of VRAs are also bizarre. Restraints on NICs' exports make it more difficult for them to repay their debts to us and others. Restraints on Brazilian footwear allow the Italians a clear run. Restraints on Philippine garments benefit American clothing manufacturers.

The relative and absolute costs of protection. All protection imposes additional costs and makes the growth of international trade that much more difficult. Subsidy is a particularly expensive and damaging way of protecting declining industries. VRAs and other quotas are often more expensive than imposing tariffs, where at least the Government enjoys the revenue rather than some middle man or foreign market place.

It is in our interests to negotiate as many of these constraints away as possible on a multilateral basis, and this should be the aim of the London Summit. There needs to be a wide-ranging comparative study of all the different types of protection as a basis for negotiations and informed discussion. We do not think the DTI one will go far enough, but it is a good start: we need to do it for all protected industries.



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