

## **Towards a More General Approach to Trade Liberalisation**





liberalisation is reasonably unproblematic and involves the removal of trade restrictions at a greater or lesser rate. The 'theories' of product cycle and intra-industry trade point to important issues which this simple picture captures, if at all, inadequately. Taken together

of the many causes of market failure with one of the many mercantilist instruments that could then be used to increase welfare” (1993: 18). The exceptions to free trade generated





orthodox discussion of the normative economics of piecemeal or gradual trade liberalisation including analysis of the two orthodox rules of unilateral tariff reform - 'equi-proportional across the board' and 'top down' tariff reform. But the book provides no mention of EPZs, or duty remission schemes (1990: xii and *passim*).

Likewise, and perhaps even more surprisingly, the body of 'intra-industry trade' literature which has sprung up in the wake of Grubel and Lloyd's 1975 book on the subject does not appear to have considered 'intra-industry trade facilitation policy'. Intra-industry trade theory is similar to its disciplinary cousin - strategic trade theory - in its orientation around the free trade versus 'intervention' dichotomy and its ultimate ambivalence about policy. Greenaway's mid 1980s survey of the normative implications of the new sub-discipline is representative. Commenting that some models of intra-industry trade suggest that tariffs can increase welfare, Greenaway does add that generally in these instances the tariff is actually correcting a domestic distortion. He comments that if so, other policies - particularly subsidies - could usually correct the domestic distortion at lower cost (1985: 87-8, 90). This invocation to offer any assistance as 'promotion not protection' is the essential insight of the new development consensus of the 1970s and as I have argued in Section Two, seems particularly apposite where intra-industry trade is present.

their trade, it seems arbitrary for Warr to insist, as he seems to, that more orthodox liberalisation - via tariffication and tariff reduction - is better than less orthodox liberalisation. The relevant question is: what welfare effects and what risks attend these 'non-traditional' approaches to trade liberalisation compared with the alternative more





lower costs for the industries, regions, firms for which they liberalise trade. If reform cannot proceed faster than is consistent with a certain rate of growth, decline or level of activity within a region, form or industry,

**Table 1                      A Taxonomy of Trade Liberalisation**

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Type of Trade  
Liberalisation

expect, the particular innovations chosen reflected the particular developmental stage of





import expansions will divert more trade than they create at the same time as undermining the cornerstone of the multilateral trading system, the Most Favoured Nation rule.





Li, K. T. (1988). *The Evolution of Policy Behind Taiwan's Development Success*, Yale University, New Haven and London.

Little, I., Scitovsky, T. and Scott, M. (1970). *Industry and Trade in Some Developing*

their own, bring about complete freedom of trade. Needless to say, so far, neither has!

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