Book Reviews

Jagdish Bhagwati, *Protectionism*. Cambridge, Massachusetts and London, England: MIT Press, 1988. Pp. xiii + 147. $16.95 hardcover, $7.95 paperback. ISBN 0-262-02282-6 (hardcover); 0-262-52150-4 (paperback).

This is a valuable book which is both entertaining and informative. It will be of great interest to those interested in trade policy in academia, government and business, and its message is equally important to small and large businesses.

The book is based on a series of lectures delivered by Professor Bhagwati at the Stockholm School of Economics in 1987. In it, he traces the course of international trade policy thinking since 1945, identifying the major economic and political influences that have pitted trade liberalizing elements against the forces of protectionism. Bhagwati, an Indian-born economist, is one of the leading experts on trade policy in the world today. Let there be no doubt where the author stands: he is perhaps the leading exponent and spokesman among academic trade economists for an open, multilateral trading system. He firmly rejects recent efforts to abandon GATT rules in favor of bilateralism and "strategic" trade policy based on theoretical gains from government intervention. His overall theme is that GATT-sponsored trade liberalization has been chiefly responsible for economic growth in the postwar period, and that continued growth and prosperity will depend on maintaining an open trading system based on rules to constrain the protectionist actions of governments.

As the lecture format suggests, the book offers no detailed exposition of these ideas, but rather a concise — and often witty — analysis of the basic arguments for and against protectionism. At the same time, the excellent bibliography offers some 180 entries covering much of the trade policy literature. In contrast to the dry and usually forbidding theoretical explanations of most books on trade policy, Bhagwati puts the issues into their historical context and illustrates his points with numerous examples, graphs, charts, an occasional cartoon and some amusing doggerel, such as this 19th-century version of the "Buy American" theme:

> Shall we, of gewgaws gleaning half the globe,
> Disgrace our country with a foreign robe?

The author begins with an overview of trade patterns and trade liberalization in the postwar period, characterized by the "virtuous circle" of tariff cuts, increased trade, increased income, and further tariff cuts. Some sectors have, however, remained outside the grasp of open trade due to deeply embedded protectionist tendencies, particularly agriculture and textiles. In addition, less developed countries have, as a group, gained "special and differential treatment" in the GATT that exempts them from reciprocal trade liberalizing measures due to their presumed economic weakness and inability to offer tariff cuts of their own. Bhagwati examines the dubious reasoning for making this exception in a later chapter, highlighting the success of the "four tigers" (South Korea, Taiwan, Hong Kong, and Singapore) in departing from the traditional import-substitution policies of less developed countries and exposing their economics to world markets.

In essence, Bhagwati is an optimist when it comes to the overall trends in trade policy. The sobering experience of protectionism and economic depression in the 1930s, combined with the confidence and leadership of the United States in the world economy after World War II, created a "pro-trade" bias in U.S. trade policy. Political forces in the early postwar period (bolstered by U.S. security interests and a strategy of Communist containment) thereby allowed the U.S. to sponsor a new, multilateral trading system represented by the GATT. In more recent years, the pro-trade bias has been strengthened by the increasing globalization of markets and the criss-crossing of direct foreign investment in all major trading countries. The recognition of interdependence, in the author's view, automatically dampens governmental efforts to close markets.

Bhagwati's belief in a pro-trade bias contradicts the traditional pessimism of the political economy of trade measures, based on the observation that protectionism concentrates its benefits on a few while spreading its (larger) costs more thinly throughout the economy. Thus, the beneficiaries of protection have a strong incentive to lobby for it, while the masses of consumers do not have a corresponding incentive to lobby collectively against it. Bhagwati notes, however, that the experience of disastrous protectionist episodes of the past has given policymakers the power of "learning before undoing" (85), providing a strong incentive to draw back from severe departures from open trade. Despite the challenges of rapid structural change in the world economy and the psychological difficulties of the "diminished giant syndrome" facing the U.S., trade policy has managed to maintain its pro-trade bias.

Significantly, the pro-trade bias received a major boost when Congress transferred tariff-setting authority to the executive branch in the Trade Agreements Act of 1934, and thereby removed trade policy from the direct onslaught of special interests. The executive branch, more mindful of both *overall* economic welfare and the sensitivity of trade policy in international relations, thus gained control over the administration of commercial policy. This point is crucial to Bhagwati's assessment of the implications of the Trade Act of 1988, which was being debated while this book was going to press. Bhagwati is severely critical of this new legislation, which represents an effort by Congress to regain control over trade policy by, for example, subjecting the procedures for imposing punitive trade restrictions (Section 301 and "super-301" actions) to rigid requirements and timetables. The legislation eventually passed with many such potentially protectionist elements intact. It is highly likely that Professor Bhagwati's optimism has waned in the meantime.

To be sure, Bhagwati does recognize the most dangerous trend in trade policy in recent years: a departure from the GATT's most-favored nation clause in favor of bilateralism and discriminatory trade controls. Within the framework of his discussion, protectionism now takes two basic forms: those measures which *bypass* existing GATT rules and those which *manipulate* or pervert GATT rules. The GATT, for example, does allow "safeguard" measures to protect against rapid increases in imports. Yet in order to avoid complying with the GATT requirement of non-discrimination in taking such actions, governments have turned to the use of "voluntary" export restraint (VER) agreements with the most disruptive suppliers. The other major source of protectionist activity lies in the administration of "unfair" trade laws, whose use is in fact sanctioned by the GATT. Unfortunately, the rules are rather loosely defined, allowing governments to manipulate the statutes in a protectionist manner, often with the purpose of blackmailing reluctant exporters into VER arrangements.

Bhagwati's prescription for improving trade policy therefore lies in reforms within the existing GATT framework. These include the establishment of more impartial procedures in administering trade law and the creation of a workable system of trade adjustment assistance. Above all, the principle of multilateralism should be used in settling trade disputes, instead of discriminatory, bilateral "deals" that cheat consumers and undermine the trading system. Finally, policies would more closely approach economically efficient outcomes if they involved more *accountability* and *transparency*, since greater public understanding of the effects of protectionist policies would create what Bhagwati calls the "Dracula Effect" (85) — exposing an evil [policy] to sunlight helps to destroy it.

A close inspection of Bhagwati's analysis leaves a few points of criticism. He is curiously sanguine about some types of market-*closing* bilateralism and perhaps overly fretful about market-*opening* bilateralism. On VERs, for example, Bhagwati rightly observes that the damage of such devices is mitigated by export-shifting, cross-hauling of investment and other methods of circumvention that reduce their protectionist effect. However, he goes on to assert that government officials recognize these effects and have consciously used VERs as a relatively benign method of buying off protectionist interests. The structure and dynamics of trade politics suggest a less rosy picture, however, since VERs create anti-competitive market-sharing arrangements, and have shown a tendency to grow into increasingly restrictive cartels in some cases.

On the other hand, on the issue of free trade areas such as the U.S.-Canada FTA, Bhagwati is consistent in arguing that such arrangements violate the concept of non-discrimination. Yet he fails to acknowledge that preferential trading agreements, as long as they open markets and increase efficiency and welfare for all participants, represent good trade policy. They may also provide the impetus and framework for further multilateral trade liberalization, which is one of the principal reasons that their legitimacy is recognized in Article 24 of the GATT.

On balance, however, Bhagwati has correctly identified the major problems with current trade policy, and his suggested approach in dealing with them provides the only workable way to retain an open trading system. Those whose fortunes depend on a market-driven system of trade and resource allocation take note: a successful protectionist assault on the letter or spirit of GATT rules would leave us all poorer — as individuals, as countries, and as a world community.

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Oiva Laaksonen, *Management in China during and after Mao.* Berlin/New York: de Gruyter, 1988. Pp. 378. ISBN 0-89925-25-4.

> From the beginning of the Industrial Revolution, succeeding centuries have been connected with special areas or countries where the development has been fastest...
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> — British century 1775—1875
> — American century 1875—1975
> — Pacific century 1975—
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> At present Japan is peaking, but there are signs that China may be next.

Thus begins a broad survey of contemporary Chinese management and its historical roots. This book is a product of the work conducted painstakingly by a management scholar in Finland over a 13-year period from 1973 to 1986.

When one speaks about management in a capitalist country, one usually means management in industrial enterprises. However, as the author points out at the beginning of the study, in socialist China the Communist Party, and government and industrial enterprises at different levels form a tightly integrated entity. Thus, the book examines the management of enterprises, government agencies and of the Communist Party. These are the organizations that have undergone great changes since the victory of the Communists over the Nationalists in 1949.

The book is divided into seven chapters. The introductory chapter explains why the study was conducted. Despite several setbacks to date, China has succeeded in raising the standard of living faster than other developing countries, and within a short period of time. China has also been like a huge "management laboratory" where different kinds of management systems have been tested. According to the author, the Chinese experience can, therefore, throw new light on the theories and practices of management.

Chapter 2 provides a general description of China's human resources, geography, economy, education, religion, culture and administration, which may be helpful to understand the environment in which the Chinese managers operate. Taking the view that the management of contemporary China is the heir of earlier generations, Chapter 3 examines the socioeconomic history of China as well as early Chinese thoughts about management, which the author argues have had a great impact upon the nature of China's present management practices. In Chapter 4, readers are offered a summary of the results of earlier developments in China, including an interesting discussion on the nation's traditional values and new ideological power, which formed the basis and starting point for the new administration under the Communist rule in 1949.

Since the turn of this century, China's economic system has changed back and forth, swinging like one giant pendulum: (a) from 1912 to 1949, immediately before the creation of the People's Republic, Chiang Kai-shek's bureaucratic-capitalists dominated the nation's economy; (b) during the economic rehabilitation and socialist reform from 1949 to 1956, the capitalist economy was fast transformed into the social economy under Mao Ze-dong's leadership; (c) the next 8-year period between 1957 and 1965 saw a temporary