

Letter from the Editor

Over a year ago, the Republicans took over the legislature as most American voters chose to stay home. An anti-Republican backlash has since ensued, as the Republicans have tried to push through their Contract With America. People have once more woken up to politics, spurred particularly by the cuts made by the house. *Helvidius* too has taken a representative turn: this issue presents the readers with articles on topics that are of particular concern and interest to the country generally, but more particularly, to the students on campus.

In this issue of *Helvidius* writers tackle the thorny issues of finance arising out of the Republican cuts. The implication of cuts to foreign aid, and, even closer to home, of student financial aid are considered and evaluated.

The Women's Conference in Beijing has alighted interest in women's issues. This issue of *Helvidius* consequently presents the readers with articles that highlight the role of women across the world, in different states and under several different regimes. These articles while they confirm some perceptions also challenge several other stereotypes.

The fiftieth anniversary of the United Nations has passed us by rather quietly. Sadly this issue reflects the prevalent apathy towards the UN: no one has cared to write about the UN on its 50th birthday. A turning away from international issues and foras and towards domestic issues seems to be the sad trend of the day.

Helvidius has continued with its law review section. Our articles this issue will particularly interest students looking into law schools.

There have been several things done differently with *Helvidius* this time around. *Helvidius* is coming out late this semester because of financial difficulties. We apologize to all those who expressed concern. *Helvidius* has changed its look, going from the magazine format to a more journal-like look. We hope that this goes down well with you. In addition to the traditional *Helvidius* articles of substantial length and in-depth research we have included book-reviews and op-eds: we hope this will not detract from our established thorough manner, but rather add perspective to our more-full bodied articles.

The primaries for party candidates are coming up. The presidential elections are not that far away too. Will the backlash against the Republican cuts carry President Clinton into office for another term, or will the presidency too be taken over by the Republican? The US has committed troops to Bosnia. What will become of the UN? Expect to read insightful reviews of these and other important events in our next issues.

Mohammad A. Qayyum

Helvidius is named after Helvidius Priscus, a Roman statesman and Stoic philosopher in the first century AD known for his virtue, independence of mind, and staunch advocacy of republican government. His beliefs brought him into direct conflict with the emperors Nero and Vespasian, both of whom banished him. Helvidius' defense of liberty and freedom of speech, as well as his opposition to dynastic succession, eventually led to his execution. Thus he is remembered as the first martyr for free speech.

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Feature Article

President Clinton versus Prime Minister Peel: the Obsession with Reciprocity

By Jagdish Bhagwati

Bhagwati suggests that the Clinton administration abandon its "obsession with reciprocity" and proceed unilaterally to reduce trade barriers.

In 1846, Prime Minister Robert Peel, speaking in the Parliament for a British policy of unilateral free trade, had argued eloquently: "I trust the Government... will not resume the policy which they and we have found most inconvenient namely, the haggling with foreign countries about reciprocal concessions, instead of taking that independent course which believe to be conducive to our own interests. Let us trust to the influence of public opinion in other countries — let us trust that our example, with the proof of practical benefits we derive from it, will at no remote period insure the adoption of the principles on which we have acted."

As US trade policy founders on the shoals of reciprocity, crippling the post-war leadership of that great nation of the world trading system, "the proof of practical benefits" from her "first mover's advantage" in unilateral deregulation and openness in modern sector in modern sectors such as finance and telecommunications is indeed beginning to move other nations to follow the US course. President Clinton needs to ponder Prime Minister Peel's words, abandon the counsel of his current advisors, and change course.

Indeed, except when it aggressively seeks unrequited trade concessions from others under threats of sanctions, United States trade policy has now become a prisoner of the doctrine of reciprocity, where no trade concession is made unless matched by other nation's and access to one's market must be equal to that offered by others.

This was manifest in the withdrawal of the United States from the WTO pact on banking and financial services over a month ago because there were "insufficient" reciprocal concessions by other countries and it wished to discriminate against these nations. Remarkably, leadership on the issue was seized by Sir Leon Brittan and the European Union; their efforts rescued the pact until 1997 with its non-discriminatory MFN feature intact.

The same exaggerated concern with reciprocity, reflecting the assertion that the Japanese markets are closed to the US whereas the US markets are open, has prompted Japan-baiting Section 301 tactics with demands for instant gratification in the form of managed-trade targets such as on purchases of parts. It led to the thinly-disguised debacle at Geneva in the US-Japan car dispute. By threatening Japan with punitive tariffs which were bound and whose imposition would thus be manifestly WTO-illegal, and by demanding that Japanese firms in the US buy more US-made parts when in fact the TRIM agreement at the WTO forbids such domestic-content pressures, the United States wound up with the predictable outcome where the Japanese government faced down these tactics and demands almost contemptuously.

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The United States did not merely lose face; it also lost the respect of the world community as a trade leader, mindful of rules and respectful of multilateralism.

But even as this obsession of the Clinton administration with reciprocity carried well beyond that required by the political necessity which dictates some element of reciprocity is inevitable when governments work on the twin assumptions that trade is good but imports are bad, economists have come to recognize that Peel's assertion of the virtues of unilateralism is coming into its own.

Thus, for some years now, many inward-looking developing countries, having learnt from the example of the success of the outward oriented economies of the Far East, have been opting for "autonomous" trade liberalizations outside of reciprocity framework of the GATT negotiations.

Then again, cross-country studies of manufacturing firms by McKinsey & Company's Global Institute, as recently reported by the economists Martin Baily and Hans Gersbach in the *Brookings Paper* (1995) have confirmed the obvious: that vigorous competition in open markets is a surefire recipe for the adoption of best-practice production methods that will make firms truly competitive.

In the financial sector as well, the openness and flexibility of London and New York, maintained regardless of reciprocity to date, has clearly enabled them to attain and retain the status as world class financial centers. By contrast, the excessive and counterproductive regulations of Tokyo have now created the serious prospect of Tokyo's loss of business to the more deregulated Singapore.

For these reasons, and not because of 301 pressures, one now detects considerable nervousness and desire for deregulation and freeing of protected markets in Japan and, for that matter, in Europe and elsewhere. One may be able to protect one's own market, developing what the Europeans call "national champions". But these champions will have puny muscles; they will not be able to compete against the lean and mean firms of the United States which is ahead of the curve in openness and deregulation. This recognition is now manifest in Japan's famed Ministry of Trade and Industry where visitors, including myself, have observed that old-style concerns with industry policy have now been replaced with concerns to ensure industry's foreign competitiveness by deregulation that would match that of the US. While *gaiatsu* (foreign pressure) exerted through 301 tactics has failed miserably in recent years, evidently the *gaiatsu* of external example is beginning to work well instead!

Unfortunately the infatuation with reciprocity that grew to gargantuan size in the late 1980s will not disappear easily. Declinism, the "diminished giant syndrome" as I called it then, has partly prompted it, just as it had when many similarly urged reciprocity on unilateralist Britain at the end of the 19th century when Germany and the US emerged as rivals. Fortunately Declinism has disappeared with America's economic turnaround and Japan's economic difficulties.

But there is also the insidious legacy of both amateur and professional economic theorizing of the time. The amateur theorizing concerns the repeated claims that Japan's "sanctuary" markets unfairly threaten the US firms. Behind their barriers, the Japanese firms are assumed to earn sizable monopoly profits which then are used to compete their rivals into bankruptcy, thus lending force to our demands for reciprocal access. The problem with this contention is simply that it has no factual basis. Serious analysts agree that most of the Japanese industries are fiercely competitive; besides, their rates of return are generally low and below ours.

But the professional theorizing in favor of reciprocal access is more serious.

It comes from my brilliant MIT student, Paul Krugman, who formalized the Silicon Valley entrepreneurs' reciprocitarian complaints. In essence they argued that, with their own markets closed while the US markets were open, the Japanese firms had two markets (and hence larger production) while the US firms had one. So, Japanese firms would have lower costs, reflecting the higher production levels because of learning by "doing".

Whatever the model's merits at the time, it can be seen now as ludicrous as its assumptions. Learning depends critically on the environment. A policy of openness and deregulation, especially in modern industries such as present-day finance and telecommunications, leads to the learning and efficiency that build competitiveness. The model, and the unfortunate support it provided for hypersensitivity to reciprocity, only serve to remind us of the witticism that illogic alone can protect the economist from the unfortunate consequences of making wrong assumptions.

(A shorter op. ed. version appeared in *The Financial Times* on August 24, 1995. This piece is printed with permission from the author.)

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