

## IMPORT PROMOTION

Import-promotion policies are measures intended to increase the volume of a country's imports from a particular trading partner or group of trading partners. Such policies may include bilateral agreements, bureaucratic directives, import subsidies, or procedures to improve foreign exporters' information about domestic market opportunities. Many countries have used trade policy to spur development of their own domestic industries, either by restricting competition from imports (import substitution) or by expanding exports (export promotion). Import promotion, which has the effect of *increasing* the foreign competition faced by domestic firms, is much less common.

Among major trading countries, import promotion has been employed to defuse political tensions arising from large bilateral trade imbalances, particularly the record trade surpluses of Japan and other East Asian countries during the 1980s. Voluntary import expansion (VIE) agreements between the United States and Japan set numerical targets for Japanese imports of specific U.S. products including semiconductors, automobiles, and auto parts. The United States later negotiated VIEs for rice and beef with South Korea, another country running a large bilateral surplus on trade with the United States.

VIEs, along with the more common voluntary export restraints (VERs), are results-oriented trading arrangements in which politically acceptable trade *outcomes* are negotiated bilaterally, in contrast to rules-based relationships, in which underlying economic conditions determine trade flows and trade balances given those rules. Results-oriented bilateral agreements, which were negotiated outside the General Agreement on Tariffs and Trade (GATT), failed to satisfy the GATT's most-favored-nation (MFN) principle—that a country should not discriminate among its trading partners. By promoting imports from one specific source, VIEs allowed imports from the favored source to displace lower-cost exports from other countries (trade diversion). VERs likewise diverted trade, with higher-cost goods from other sources replacing exports from the restricted supplier. Bilateral trade commitments also weakened competition among suppliers of affected products, thus raising their profits. Moreover, because compliance with negotiated commitments required coordination of purchases or sales, VIEs facilitated collusion among affected importing firms; VERs likewise facilitated collusion among exporting firms.

More recently, advanced countries have used import-promotion policies to assist potential exporters in developing and transition economies. For example, import-promotion agencies in a number of European countries supply information about market opportunities, organize trade fairs for small and medium-sized firms in

developing and transition countries, and offer technical assistance to potential exporters. These efforts complement the Generalized System of Preferences (GSP), which allows manufactured exports of lower-income countries preferential access to the markets of industrialized nations, and broader programs offering duty-free market access to most exports from the least-developed countries. In contrast to negotiated bilateral arrangements, these import-promotion efforts are a form of development assistance that is extended to a large class of countries. The aim is to improve efficiency by overcoming informational gaps that would otherwise prevent smaller firms in poor countries from penetrating export markets. Affected exporters are likely to benefit through increased sales abroad as well as higher prices for their products. However, as with VIEs, these policies discriminate among potential trading partners and thus run the risk that the imports promoted will displace lower-cost products from ineligible exporting nations.

SEE ALSO *Export Promotion; General Agreement on Tariffs and Trade; Import Penetration; Import Substitution; Imports; Trade Surplus*

### BIBLIOGRAPHY

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## IMPORT QUOTA

SEE *Wage and Price Controls*.

## IMPORT SUBSTITUTION

Import substitution, also referred to as import substitution industrialization (ISI), is a set of policies that addresses the developmental concerns of structurally deficient economic countries. As the name suggests, the ultimate goal of ISI is to promote a country's economic industrialization by encouraging domestic production and discouraging imports of consumer goods.

The dependency theorists were the first to formally devise import substitution as a viable economic strategy. Inspired by Karl Marx and Friedrich Engels's writings on