Voluntary Export Restraints

From Wikipedia, the free encyclopedia

Jump to: navigation, search

A "voluntary" export restraint (VER) or "voluntary" export restriction is a government imposed limit on the quantity of goods that can be exported out of a country during a specified period of time. Usually the importing country coerces the exporter into a "voluntary" restraint agreement, and the word voluntary is in quotes to indicate it's not truly voluntary.

Typically VERs arise when the import-competing industries seek protection from a surge of imports from particular exporting countries. VERs are then offered by the exporter to appease the importing country and to deter the other party from imposing even more explicit (and less flexible) trade barriers. VERs are rarely completely voluntary. They represent a Beggar thy neighbour policy that seeks to shift economic activity (or preserve it) for the importing country, and has the effect of increasing costs for consumers there.

Also, VERs are typically implemented on a bilateral basis, that is, on exports from one exporter to one importing country. VERs have been used since the 1930s at least, and have been applied to products ranging from textiles and footwear to steel, machine tools and automobiles. They became a popular form of protection during the 1980s, perhaps in part because they did not violate countries' agreements under the GATT. As a result of the Uruguay round of the General Agreement on Tariffs and Trade (GATT), completed in 1994, World Trade Organization (WTO) members agreed not to implement any new VERs and to phase out any existing VERs over a four year period. Exceptions can be granted for one sector in each importing country.

Some interesting examples of VERs occurred with auto exports from Japan in the early 1980s and with textile exports in the 1950s and 1960s.

[edit] 1981 Automobile VER

When the automobile industry in the United States was threatened by the popularity of cheaper more fuel efficient Japanese cars, a 1981 "voluntary restraint agreement" limited the Japanese to exporting 1.68 million cars to the U.S. annually.

In the short run, the Detroit Three auto manufacturers did reap enormous profits as the market suddenly became less competitive. However, GM didn't reinvest the money back into its core operations and upgrade them to Japanese standards. GM didn’t reinvest the money in ways that would lower the cost, and improve the quality of cars that went to the showrooms. GM failed in the 1980s because it tried to solve problems without addressing their fundamental, underlying causes. As Keller comments, “Acquiring EDS and Hughes was like the four-hundred-pound woman coloring her hair and doing her
nails. It wasn’t tackling the real problem.”[xlviii] Its problem was not that it was short of technology; it was that it was a badly organized, insular, backward-looking, and inefficient producer of motor vehicles. Smith’s obsession with technology made no impact on GM’s ability to compete.

The Japanese automobile industry responded by establishing assembly plants or "transplants" in the United States to produce mass market vehicles. They also began exporting bigger, more expensive cars (soon under their newly-formed luxury brands like Acura, Lexus, and Infiniti).