

# BILATERAL IMPORT PROMOTION AS A KEY TO INTEGRATION IN A HIERARCHICAL WORLD

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### 1. The advantages of bilateral import promotion

**Symmetric import promotion** in two countries results in **higher exports** of both, in a more equilibrated and sustainable **trade balance**, in better industrial specialization and in the fulfilment of production gaps in **differentiated product lines**. It's easier to train importers than exporters, thus this trade policy would have faster and less uncertain outcomes than export promotion, which often rise also political conflicts with foreign "invaded" countries.

The present paper provides an overview of the **goals**, the **tools**, and the implementation **process of a new trade policy** whose main consequence is not only the increase in **your country's trade** but, even more importantly, the emergence of the **integration pattern of international relationships** out of [the hierarchical world we have described in this paper](#).

Being important to your main partners means be treated on an equal foot not only in economic forums but also in all political alliances and structures. To escape a relationship of dependence, as defined there, this **WTO-compliant trade policy** can help you identify a country with which to jointly launch a bilateral import promotion, either temporarily or permanently.

To avoid any misunderstanding, **we do not take any position about tariffs, duties or trade barriers**. In particular, we do not use the "bilateral" word in connection with "bilateralism", i.e. "Preferential Trade Agreements" between couples of countries. Instead, whichever the existing bodies of laws and regulations between two countries (to the extend that they do not simply forbid trade), we propose to consider "soft strategies" of trade facilitation and trade promotion symmetrically in both states at the same time.

### 2. What's promotion of imports?

**Imports** are purchases from foreign sellers. Usually, the latter are eager to sell, so that it is very easy to buy, if you have the purchase power. Exporters can be met at their own premises, but it not unusual that they even come to your country to offer catalogs and collect orders.

An importer that intends to re-sell foreign good in the domestic market need to be sure (or have a reasonable expectation / entrepreneurial judgment) that the good can be **profitably** spread through the distribution channels typical of his countries. This requires a fair understanding of the "rules of the game" as well as a positive judgement of the **novelty** and "success factors" of the imported good.

However, once the good begins to sell well, further imports will be extremely easy.

In short, public promotion of imports - whose specific instruments will be presented at the end of the paper - goes in the same direction as **market forces**, boosting an already fairly



easy task. This means that this policy will likely obtain fast success. Export promotion instruments and tools become more effective if reinterpreted in this perspective.

### 3. Why is it important to dance in two?

No country would like to promote imports as unilateral policy that would mainly [substitute](#) domestic production. But **if two countries agree to promote imports to each other, exports will compensate imports**, especially if imports mainly fulfil the qualitatively [differentiated supply](#) of goods.

Exports, which in normal conditions are [difficult](#) to boost, will quickly rise, engendering higher saturation of productive capacity, boosting [productivity](#), [profits](#), and [investments](#). Higher [employment](#) will in most cases accompany the general growth.

Bilateral import promotion is not only politically feasible but also macroeconomically **sustainable** over long periods of time. If, at the beginning, there was little trade between the two countries, bilateral import promotion will keep an equilibrated [trade balance](#), to the extent both countries seize this opportunity in (more or less) the same amount, if not at the same exact timing.

If, by contrast, the starting point was an unbalance in favour of one of the couple, import promotion can be directed towards two goals:

- a. a large export increase of equal size for both countries, so to reduce the unbalance in percentage account, or
- b. a more than proportional increase of exports of the "weaker" country, so that a (more or less) balance is reached.

Depending how serious is the initial unbalance and how quickly new unbalances might appear, there can be a neutral or active attitudes of the two partners in favour of one of those two options.

The overall goal is a consensus-based boost of trade whose main effect is **micro-efficiency** and not macro-unbalance. The composition of imports should be oriented towards [new, better](#) and novel foreign goods that complement the heterogeneous domestic supply to households and firms, to the effect that the **marginal propensity to consume** changes (**upwards**) and **productivity increases** as well [1].

This policy tends towards "**development**" rather than towards "growth", the first being characterized by historical co-evolution of [tastes](#) and differentiated supply, the second by "more of the same".

And **sustainability** both in socio-political terms and in long-term financial terms is the driving value, the first being negotiated for common export boost (and **non-damaging imports**), the second resulting from an equilibrated trade balance, which avoids the cumulation of foreign debt (with its consequent loans and [interests payments](#)).

### 4. Bilateral import promotion as a micro-foundation of integration

Bilateral import promotion has several self-evident advantages. But an innovative approach to political balance of powers, we introduced [in this paper on hierarchies in world trade](#) and [developed further for Princeton University](#), sheds light on a further far-reaching - possibly unexpected - outcome.

In our approach, "Integration" is one out of 16 different patterns of economic and political relations that can link two countries. "Integration" between two countries A and B means that four key statements are true at the same time:

1. "For B, A is a major export destination"
2. "For B, A is a major import source"
3. "For A, B is a major export destination"
4. "For A, B is a major import source".

In other words, they need each other. The domestic condition and [business cycle phase](#) tend to be mutually linked. Trade represents the material basis for a political relationship between equally powerful states. Needless to say, if integration is recent or political forces do not recognize it, one country can behave unfairly. But earlier or later, this will run against its own interests.

Integration loosely requires a lot of trade between the two countries, so that their flows are larger than with other (not all!) countries. Bilateral import promotion is a dynamic policy micro-founding political Integration, because it boosts more than proportionally the flows between the two countries.

Please note that no trade diversion is needed to reach this goal, because the policy works



on dynamics (faster growth) and not on comparative statics (higher levels). This policy does not distort incentive to market forces and private initiatives, because it does not influence prices, quotas, or tariffs.

A sober and realistic assessment is necessary to establish whether it is possible that the two countries can reach integration in a reasonable lapse of time. If the two countries are too different in economic and demographic size, while having much more "natural" partners, Integration might be an impossible goal.

However, in 2003 the 24 actual Integration relationships were the following, showing that even fairly different countries can turn out to be integrated:

<b>Couples of integrated countries in 2003</b>
Brazil - Argentina
Belarus - Russian Federation
Belgium - France
Belgium - The Netherlands
Mexico - Canada
Mexico - USA
USA - Canada
China - Republic of Korea
China - Japan
Japan - Republic of Korea
China - USA
Colombia - Venezuela
Croatia - Slovenia
Czech Republic - Slovakia
Denmark - Sweden
Sweden - Norway
France - Italy
United Kingdom - France
France - Germany
Germany - Italy
Germany - United Kingdom
Germany - USA
USA - Japan
Singapore - Malaysia

Source: Piana (2006).

Depending on the current pattern between two countries of your interest, that you can discover by looking at [this comprehensive matrix](#), a specific boost of particular direction of trade which are currently too weak might be targeted. For instance, starting from a pattern of "Absence of relationships", bilateral import promotion boosts all the necessary flows.

By contrast, starting with Dependence source interconnection, only one link is necessary to reach integration. In this case, if the political leaderships of those two countries express the desire and practical goal of Integration, then which is the side that should be helped more than proportionally becomes fairly clear.

At any rate, although particularly effective for targeting Integration, bilateral import promotion is a policy that can have wide positive effects on all countries that would decide to adopt it.

## 5. The process of political policy launch: a scheme

Bilateral import promotion does not need to be officially declared by national public bodies. It can be the *praxis* of private or semi-private agents (as the Chambers of Commerce), in horizontal coordination with foreign counterparts. Sub-national regions can choose and use this policy, because of their special location, ethnic composition or specific interest.

However, in this final chapter, we shortly announce a possible path that national



authorities might follow to officially frame this policy. Needless to say, readers are welcomed to make comments and to signal ideas.

The scheme of main steps in the political process, led by the Ministry of Foreign Affairs and the Ministry for International Trade, might turn out to be:

1. Outline the goals of foreign policy in terms of role in the world
  - 2.1. Identify critical partners
  - 2.2. Check the current state of bilateral commercial relationships
  - 2.3. Map the main issues of conflict
  - 2.4. If conflict is solvable, contact the foreign counterparts for dialogue
3. Informal meeting aimed at explaining the strategy of bilateral import promotion in the wider context of bilateral relationships
  - 4.1. A scheme for a bilateral agreement
  - 4.2. Negotiation and adoption of the bilateral agreement
  - 4.3. Pilot implementation of the agreement
  - 4.4. Monitoring the implementation and the results
  - 4.5. Possible adaptation and improvements
5. Communicating the success to the domestic and international public.

In short, the substantive measures of the technical implementation are laid down in a bilateral agreement, as the many signed by couple of countries over the last centuries. The novelty is the practical level of measures, as well as the stated goals of a bilateral import promotion.

## 6. The technical implementation of the policy

The basic measure to be taken is **training** of potential and actual **importers** in both countries. They should be able to analyse both markets, map business opportunities, identify suitable partners. Training should include a period in the twinning country to observe [products](#) and [prices](#). Their respective language should be mastered at least at a level allowing business-oriented conversations, so that the cost (time and effort) of learning becomes [a sunk cost](#) to enhance the credible commitment of both sides.

Then common meeting and special trade fairs should gather importers and potential sellers (who might be considering export for the first time), **banks**, **logistic operators**, officials from **custom** office of both countries, **marketing agencies**. In an informal environment, the problems that currently brake trade should be highlighted and potential organizational solutions be devised. For instance, lines of credit and the relative guarantees might be outlined keeping into account the whole relationships that are going to be put into existence, reducing the [credit risk](#).

Custom problems, as difficult and uncoherent procedures on the borders or corruption, should be discussed, at the presence of the policy-maker, so that operational improvements can be devised and later introduced.

Logistic problems might be eased by coordinating new **freight lines** that accompany the growing imports. New infrastructure usually requires more time and more money than this policy is targeted at, but, with prosperity, this investment can be extremely useful.

Marketing specialists can provide insights about differences in consumers' perceptions and proper [advertising](#), so to boost their own services.

In general, this first group of facilitated importers acts as **pioneers** in a diffusion process, so that they can show the success path for their followers, benefit a much larger community.

In some cases, the two countries might decide to launch a rotative fund that can guarantee or provide early finance, cash flow or other temporary facilities. In this case, a 50%-50% contribution of the two countries can be modified to keep into account the realities and the goals of the policy. In general, the fund should work similarly to micro-credit institutions as far as guidelines and practices are concerned.

In this short paper, we tried to outline the rationale for a new policy. Whether it will be adopted will depend more on you than on us.

## NOTES

[1] In other words, our perspective assumes **imperfect competition**, [economies of scope](#).

[scale and variety](#), and [heterogeneous bounded rational agents](#). In particular, importers are considered better vehicles of fast change than exporters, because of **cognitive and financial asymmetries**. For an exploration of how [difficult](#) is export, see [this paper on culture levels and export growth](#).

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