over another. In his view, one dollar's worth of exports is as good for the United States as any other dollar's worth.

Laura D'Andrea Tyson offers a different version of a new U.S. approach to international trade. She argues that the United States needs a government policy that actively promotes the development of high value-added industries. The rapid development of certain strategic U.S. industries, such as the high technology electronic and communications sectors, she believes, confers beneficial spillovers on the rest of the U.S. economy. These industries, if sufficiently reinvigorated, would avoid a loss of U.S. markets under the onslaught of the aggressive trade practices of Japan and the European Union. After all, in her view, other governments actively support their high-technology industries. Ms. Tyson's contention is that the U.S. cannot afford to leave the development of such industries to imperfect international market forces alone. Consequently, her policy of managed trade envisages the negotiation of a series of international agreements, recognizing that governments do subsidize, protect and otherwise support their high technology industries. She would codify rules of the game for such intervention. If such agreements cannot be reached, Tyson argues that the U.S. should then set numerical targets for foreign exports to the U.S. or U.S. exports to other countries (applied to specific industries) and use the threat of various sanctions to achieve those outcomes.[5]

1.1 Strategic Trade Policy in Imperfectly Competitive Markets

Imperfect competition among a small number of large firms, especially in high technology industries, provides each firm an opportunity to make above normal profit or "rents". Taking such rents as given, trade environments that provide a country larger access to rents are economically superior to other situations. Strategic trade policy can, at least in theory, achieve such trade patterns. Alternatively, it can deter other countries from gaining such an advantage at "our" country's expense. Thus, strategic trade policy is essentially a rent-shifting device in imperfectly competitive environments.

Trade policy has the power to shift rents because it alters the world market conditions in our favour. Our export subsidies, for example, may be seen by firms as equivalent to domestic cost reducing innovations. Furthermore, they may preempt or deter foreign firms from rent draining expansion in third country markets. An import tariff may do the same at home. To alter the decisions of rivals in this way, foreign firms must view such domestic policy as a credible commitment. One way domestic firms can signal this is by incurring large sunk costs and building spare capacity with the potential of achieving economies of scale. If foreign

[5] Laura D'Andrea Tyson, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, Institute for International Economics, Washington, D.C., 1992. To her credit, Ms. Tyson also is scathing in her criticism of the current international rules on dumping. For example, she views the anti-dumping methodology based on constructed value (including in the U.S.) to be arbitrary and contrary to good economics (e.g., the focus on average total cost pricing and a unilaterally imputed "normal" profit margin). Ms. Tyson is currently Chairperson of the Council of Economic Advisors in the Clinton Administration.