Introduction

Sisira Jayasuriya

These two volumes, *Trade Theory, Analytical Models and Development* and *Trade Policy Reforms and Development*, bring together papers prepared in honour of Professor Peter Lloyd (Ritchie Professor of Economics at the Department of Economics, University of Melbourne, Australia) on the occasion of his formal retirement after a distinguished career of over four decades in academia. A group of his close friends and collaborators – drawn from four continents – was present to honour him at a *Festschrift* conference held on 23–24 January 2003 at the University of Melbourne where preliminary versions of most of these chapters were presented. The chapters have been subsequently revised in the light of comments from referees and participants at the workshop.

Peter Lloyd, at present one of the most distinguished and internationally renowned Australian economists, started life – in his own words – as a ‘boy from the bush’ in New Zealand, completed his undergraduate and Masters at the Victoria University of Wellington in New Zealand, and did his doctoral studies at Duke University, USA. After graduation he returned to the Victoria University of Wellington to start his university career and subsequently held positions in economics departments at the Michigan State University, the Australian National University and finally, in 1983, at the University of Melbourne. In between he spent periods at various universities around the world, including a period as Visiting Professor at the National University of Singapore in the early 1980s.

The titles of the two volumes and the diversity of topics covered by the contributors reflect Peter Lloyd’s core interests as a professional economist: development of rigorous theory and analytical models to understand and elucidate real-world behaviour, and the application of conclusions from theory to inform policy. Peter’s own wide-ranging interests have led him to write not only on international economics, but also on production theory, welfare economics, macroeconomics, health economics, finance, economic demography, history of economic thought and mathematical economics, though his reputation in international economics perhaps tends to overshadow his important contributions to these other fields.

Peter has been – and remains – an ‘old-fashioned’ academic in the best sense of the term, devoted to maintaining the highest standards of academic integrity and scholarly rigour in his own work and within the profession. His research is also driven by a sense of social responsibility, in the best traditions of the classical economists. While strongly believing in ‘the essentiality of theory to understanding the real world and to policy advice’, Peter has consistently resisted the temptation to ‘do theory for its own sake’ (or, for the sake of a ‘good’ journal paper!). With obvious regret, in his introduction to his selected essays (*International Trade Opening and the Formation of the Global Economy*, Edward Elgar, 2002) he wrote that:

an increasing proportion of academic writers devote their efforts to theory which is divorced from any policy advice or even any general interest in policies. There is more interest today in theory for its own sake. This is most notable in the United States but is increasingly true in Australia. Specialization in the activities of economists has produced much higher levels of skills and much inventive theorising but the profession of economics would in my view be more productive as a social instrument if closer links between theory and policy were re-established.

One consequence of this strong interest in real-world economies and policy issues has been Peter’s increasing interest in international policy debates centred around the ongoing process of globalization and international economic integration. Dating from his time in Singapore in the early 1980s, he has become a leading analyst of trade and development issues in Asia. Similarly, the global trading system and the role and nature of the WTO have attracted much of his attention in recent years.

Without attempting an exhaustive survey of Peter’s research output – his publications list includes 16 books, nine research monographs, 102 journal publications, and 98 book chapters (the complete list is accessible at www.economics.unimelb.edu.au/staffprofile/plloyd.htm) – it is worth briefly reviewing some of his writings to illustrate both the significance of Peter’s academic contributions and his versatility. Peter Lloyd’s contribution to the study of intra-industry trade is internationally recognized and demonstrates how careful examination of real-world developments paved the way for major advances in theory. His joint paper with Herbert Grubel in 1971 on ‘The empirical measurement of intra-industry trade’ in the *Economic Record* examined Australian trade data in detail and argued that the phenomenon of intra-industry trade was not a mere statistical artefact but a real phenomenon that demanded more attention from international trade theorists and analysts. The index presented in that paper – later known as the ‘Grubel–Lloyd’ index – remains to this day the most popular measure of intra-industry trade in the empirical literature. This was fol-

lowed by their book *Intra-Industry Trade* (Macmillan, 1975), which documented in detail that intra-industry trade was indeed an important and increasingly significant global phenomenon in international trade. In the light of subsequent developments in international trade theory, particularly the class of models associated with the New Trade Theory pioneered by Paul Krugman and others that combine differentiated products and imperfectly competitive markets, the concluding paragraph of the 1971 paper makes interesting reading:

Different actual cases called for diverse explanations in terms of advantages of specialization in narrow product ranges, joint production unmatched by complementarity in demand, and trade across borders in high transportation cost industries. *The explanation of other intra-industry trade flows may require consideration of product differentiation strategies in oligopolistic markets which have been neglected by most international trade theorists.* (emphasis added)

The stimulus for rigorous theorizing provided by the requirements of practical policy making is evident in the 1974 *Journal of International Economics* paper, 'A more general theory of price distortions in open economies', which attempted to derive simple policy rules that ensure welfare improvements for the realistic case of *partial* reforms to trade regimes – piecemeal tariff reforms – which raise the standard second-best problems of moving from one distorted situation to another. The paper examined the even now widely practised policies of reductions in extreme tariffs and uniform reductions in all tariff rates. Interest in piecemeal reforms and analytical approaches to dealing with welfare changes in distorted economies led to the paper with Albert Schweinberger on 'Trade expenditure functions and gains from trade' in 1988 (*Journal of International Economics*), enables normative analysis of multi-household economies with distinct preferences and endowments. The basic concept of the trade expenditure function has subsequently been applied – most notably by James Anderson and Peter Neary – to the measurement and analysis of protection in the presence of tariff and non-tariff barriers and to the impact of piecemeal reforms.

The '3 × 3 theory of customs unions' paper in the *Journal of International Economics* in 1982 surveyed, consolidated and synthesized the theoretical analysis of customs union models that extended the analysis to three countries and three commodities. This paper demonstrated how different assumptions about patterns of trade in the 3 × 3 model lead to a wide diversity of results. In subsequent work Peter has continued to work on the theoretical (and empirical) analysis issues of regional trade blocs and their policy implications. He has been particularly interested in the 'deepening' of regional trade agreements to achieve full economic integration by

extending the scope of such agreements beyond removing barriers to trade at the border to also eliminate other internal barriers hindering market integration, thus enhancing market access to permit the ‘law of one price’ to hold is critical to achieving a fully integrated regional (or a global) economy. This interest is reflected in several of his writings on WTO and regional trade integration issues that emphasize the role of harmonization of standards, tax regimes and competition policy. Recognizing the problems posed by increasingly complicated ‘rules of origin’ in regional trade agreements, he has examined alternative policy measures to achieve the desired ends more efficiently – see, for example, ‘Country of origin in the global economy’, in *World Trade Review* (2002). Given this interest in regional and global market integration, it must be gratifying for Peter that his work has clearly had a major impact on policy discussions to move towards a fully integrated economy between New Zealand and Australia – his native and adopted countries. His 1991 study, *The Future of CER: A Single Market for Australia and New Zealand*, published by CEDA and the Institute of Policy Studies in Wellington, New Zealand, recommended an EU-style single market for the two countries, and ongoing moves to further deepen the Australia–New Zealand Closer Economic Agreement (CER) suggest that this may well become a reality in the foreseeable future.

Despite increasing involvement in policy issues in recent years, Peter has not lost his interest in making analytical models more policy relevant. This is nowhere better exemplified than in his 2002 paper ‘Generalising the Stolper–Samuleson theorem: A tale of two matrices’ (*Review of International Economics*) that extends the celebrated theorem on the distributional effects of relative price changes to the case of many goods and factors with diversified holding of factors. The paper shows that though diversified factor ownership by households fundamentally changes the relationships between prices and real incomes, the essential spirit of the theorem can be maintained in a much more general context. (Peter treasures a letter received from Paul Samuelson himself commending this extension of the theorem!)

What is truly remarkable is that Peter has maintained this record of consistently high research productivity while carrying a full load of teaching and, particularly in recent years, several heavy administrative responsibilities. As the Dean of the Faculty of Economics and Commerce from 1988 to 1993, he provided leadership and guidance during a difficult transitional period for both the Faculty and the University. He took a leadership role in developing Asia-oriented research in economics at the University of Melbourne and was the founding Director of the Asian Economics Centre and its predecessor, the Asian Business Centre. Peter has always been committed to teaching. Even when teaching was not compulsory, as was the

case during his 14 years at the Australian National University, he maintained a regular programme of teaching. He has a well-founded reputation among students fortunate enough to have been taught by him as a brilliant and dedicated teacher, generous with his time and advice as well as sympathy and understanding – as I can attest from my own personal experience. Another facet of his character is revealed by the many co-authored publications: Peter enjoys interaction and collaboration with colleagues.

The enthusiastic response to the *Festschrift* in honour of Peter Lloyd was a reflection of the high regard and esteem in which he is held by his friends, colleagues and collaborators, both here in Australia and overseas. John Freebairn, Head of the Department of Economics in 2002, mooted the idea of holding the *Festschrift* and committed departmental resources. Jeff Borland, who took over as Head in 2003, with the administrative support of Cherie Millerick, Persefoni Gouletas and Colin Newell, ensured that the *Festschrift* activities ran smoothly. The authors, discussants and other participants at the workshop – some of whom literally travelled around the globe to be present – enabled this published tribute to Peter Lloyd to become a reality. Premachandra Athukorala, Daniel M. Bernhofen, Max Corden, Mark Crosby, Geoff Edwards, Christopher Findlay, John Freebairn, Hal Hill, Patrick Jomini, Stephen King, Jay Menon, Richard Pomfret, David Robertson, John Shannon and Peter Stemp also provided refereeing and other academic assistance. In preparing the manuscript for publication, Lee Smith provided invaluable editorial assistance at short notice.

Department of Economics
University of Melbourne
Melbourne 3010, Victoria
Australia