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USA

## The New US Foreign Trade Concept

by Professor Hubertus Adebahr, Berlin \*

**On April 10, 1973, the US Administration presented a bill with the ambitious title of "Trade Reform Act". It has the purpose of equipping the executive with instruments and powers to develop US foreign trade according to its own ideas.**

**T**he Trade Bill has given rise to lively discussions and controversies in the USA itself as well as the western world at large and especially in the countries of Western Europe because it is rightly seen to be the key to the US concept of its future foreign trade which in turn is a major determinant of the course of world trade. The Trade Bill however leaves some points uncertain, which makes it very difficult to assess its potential consequences:

☐ The bill does not show clearly the aims and priorities of the economic policy on which it is based.

☐ The fate of the bill is uncertain because it may fail to pass the US Congress and its contents may be substantially altered.

☐ It is difficult to assess the reactions of the major trading partners of the USA, especially to a possibly amended version of the bill, although they will certainly have an important bearing on the outcome of the GATT world trade talks which began in Tokyo this September.

### Contents of the Bill

Since the bill has been put before the public, special stress has very often been laid in reports and comments on two points: (1) The Trade Reform Act would give the President unparalleled powers over trade policy<sup>1</sup>; (2) to judge from its contents, the bill cannot rate either as protectionist or as liberalistic<sup>2</sup>.

In as much as the President is striving to seize certain legal powers which heretofore belonged to Congress, in particular in regard to decisions on tariffs and quotas and certain branches of tax legislation, the first of these assertions is certainly warranted.

As for the second statement, a juxtaposition of the envisaged instruments and measures provides supporting evidence for it. An authorisation to negotiate agreements on the lowering of import tariffs which could involve the complete abolition of at least some duties within a period of five years is clearly a liberal instrument. The President is to be given corresponding powers to remove or alleviate non-tariff obstacles to trade, and even unilateral relinquishment of such specifically American practices as the American Selling Price System is not ruled out.

### Protectionist Elements

Of a protectionist nature are the following powers which have also been requested: The President, or alternatively the Tariff Commission under his control, is to be empowered to levy or increase special duties and/or impose or reduce quotas in order to prevent imports from causing injuries to domestic industries or firms. Likewise, the negotiation of self-restraint agreements with supplying countries is to be in his competence. There cannot be much doubt about the protectionist effect of such measures even though it is envisaged that the higher tariffs and the quota restrictions will regularly be rescinded after five years and at the latest after seven years. Misgivings must be felt in particular about the conditions which are held to warrant protective measures: any US industry could lay claim to anyone of the protective measures mentioned if it could show that imports of competing products account for a substantial part of total domestic sales, that their share is rising and that the imported goods are cheaper than their domestic counterpart.

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<sup>1</sup> Nixon's Trade Arsenal. *Newsweek*, April 23, 1973, p. 28.

<sup>2</sup> The New Trust-Nixon Policy. *Time*, April 2, 1973, p. 6.

Were this principle rigorously enforced, considerable delays in the restructuring of American production to the benefit of imported foreign goods, if nothing else, would obviously follow, and this would impair the chances of improving the international allocation of resources in this sphere.

Use of the protectionist measures to which reference has been made, as well as some others, is in addition to be permitted in defence against supposedly "unfair" foreign competition. The notion of "unfair competition" has been introduced into the bill and is also frequently considered in comments and arguments, especially more recently, without a perfectly clear indication of the meaning of this term. It is however clear that sanctions (retaliatory duties and quotas) are being envisaged against countries which discriminate against American farm produce. Besides, special import taxes are being considered as antidotes for foreign export subsidies. The intention is evidently to operate an eye-for-an-eye and tooth-for-a-tooth policy which must from the outset raise fears about its effect on world trade.

Further, it is contemplated that this arsenal of trade policy weapons may also be deployed to correct the balance of payments: The President is to be authorised to introduce general or selective import duties to overcome balance of payments deficits. On the other hand, he may order tariff reductions as a measure against price increases. The President is also to be empowered to allow industrial products to enter duty-free from developing countries and to negotiate bilateral trade agreements. Finally, additional taxes are to be sanctioned for profits which US corporations earn abroad (subsidiaries and associates) <sup>3</sup>.

### Is Trade Liberalisation the Objective?

It is difficult to perceive a clear and definite objective in the heterogeneous contents of the Trade Bill. Its contents can almost be described as self-contradictory and serving opposite aims. To go by the official comments and intimations, its prime aim is to bring about a further liberalisation of world trade <sup>4</sup>. It is difficult to see however why the protectionist instruments mentioned have to be brought into play if this is the aim. One frequently advanced argument is that the other trading partners, especially the European Community and Japan, must, in crude terms, be coerced into liberalisation; that was why a well assorted arsenal of constraints was needed. As US Secretary of the Treasury *Shultz* put it, the USA has hitherto been in the position of a helpless peti-

tioner and the US Government wants to be able to say: "We hope you will do something to help on this problem, but if you don't, we will" <sup>5</sup>. Many others, e.g. *Anthony Solomon*, the economic adviser of the House of Representatives Ways and Means Committee, and *Ingo Walter*, the economist from New York University, have argued on similar lines that the Trade Bill was serving solely defensive purposes <sup>6</sup>.

Not only is this a rather partial and flattering presentation of the USA's role on world trade issues but the mode of procedure chosen is apt to provoke self-defence preparations on the part of the USA's trading partners and to strengthen the case of those who take a sceptical or negative view of further liberalisation measures at this juncture. As the US Government is certainly aware of this obvious corollary, it may be asked why it has embarked on this path in spite of it.

### Trade Union Influence

An important reason is no doubt provided by the situation in the domestic economy of the USA and its inevitable repercussions on the domestic political scene <sup>7</sup>, for the protectionist camp in the USA has been gaining more and more adherents since unemployment — 3.5 p.c. in 1969 — has shot up to 4.9, 5.9 and 5.6 p.c. in 1970, 1971 and 1972 <sup>8</sup> and the traditional balance of trade surplus, having contracted over many years, finally gave way to a substantial deficit in 1971 which soared to \$ 6.4 bn in 1972 <sup>9</sup>. When the trade unions which had previously held to a more or less liberalistic position veered to a protectionist course, the impact was most significant. Their main arguments are

□ that the extensive direct investments of US firms abroad and especially in Western Europe involved the loss of domestic jobs which were being "exported", and

□ that the constant rise of imports was impairing the competitive strength and thereby the employment levels of domestic industry to an increasing extent <sup>10</sup>. How many jobs have thus been lost and which particular industries have been affected has been the subject of — in part questionable — computations <sup>11</sup>.

This change of sentiment has been reflected by two legislative initiatives. One was the "Mills Bill"

<sup>3</sup> Cf. *The Washington Post*, February 18, 1973, p. 9.

<sup>4</sup> Cf. *Handelsblatt*, January 15, 1973, p. 3, and March 27, 1973, p. 3.

<sup>5</sup> *Werner Handke*, *Die neue Außenwirtschaftspolitik der USA* (The New External Economic Policy of the USA), *Zeitschrift für die gesamte Staatswissenschaft*, Vol. 129, May 1973, pp. 313 ff.

<sup>6</sup> *Manpower Report of the President*, March 1973, Washington D. C., p. 17.

<sup>7</sup> *Werner Handke*, *ibid.*, pp. 319 ff.

<sup>8</sup> *Irwin Ross*, *For Protectionism*, *Fortune*, March 1973, pp. 93 ff.

<sup>11</sup> *Ibid.*, pp. 94/95.

<sup>3</sup> For the contents of the bill see, e.g.: *Nixon sharpens his trade bill strategy*, *Business Week*, April 14, 1973, p. 24 f.

<sup>4</sup> Cf. *New York Times*, April 11, 1973, and *Financial Times*, April 11, 1973.

which was tabled in 1970 by Wilbur Mills, the Chairman of the House of Representatives Ways and Means Committee, with the aim of introducing protectionist instruments, especially quotas for certain imported goods (shoes and textiles). His bill failed to obtain a majority in Congress, but a second bill with a much wider content was launched shortly afterwards, in 1971, by Representative Burke, a Democrat, and Senator Hartke. The Burke-Hartke Bill has the aim of substantially lowering imports by introducing import quotas for goods, which are meeting severe foreign competition, and significantly reducing capital exports and technology transfers by appropriate controls or embargoes and higher taxation of multinational corporations<sup>12</sup>.

### Attempted Compromise

The Trade Bill is clearly intended to propitiate the protectionist elements by adopting their demands in a modified form. It meets, for instance, the demand that industries impaired by imports should be protected, that workers made redundant by the competition of imports should receive resettlement grants and that the exportation of capital should be curbed. It has been difficult, however, to find middle ground between the protectionists' demands and the minimum requirements for the successful continuation of the efforts for world trade liberalisation.

It cannot yet be said with certainty whether the protectionists in the USA regard the bill as a basis for an acceptable compromise. The chances of the bill being passed have changed several times since the Ways and Means Committee began the hearings on May 9, 1973. As the Watergate scandal grew and spread, it had undoubtedly a direct impact on the progress of the negotiations; for misgivings were bound to be felt about investing large additional powers in a President who is strongly suspected of having abused his office and authority. Nevertheless the Ways and Means Committee on July 16 with a large majority refused to stipulate substantial import restrictions in a binding form as part of the bill. The rejection of this proposal was a clear defeat for the protectionists.

At present one thing only is certain, namely, that the original time schedule is out of date. The bill should have passed through the House of Representatives by August 3, but now the USA delegation will have to do its bargaining at the GATT talks which began on September 12 (the Nixon Round) without having yet received the appropriate authorisations. A slight delay will not matter

much because the negotiations will in any case drag on for many months. But if the protectionist circles delay the passing of the bill, as they are planning to do, until next year, the progress of the negotiations could suffer; for the US negotiators can point to the negative experience after the Kennedy Round when certain of the negotiated results were not endorsed by the US Congress and therefore could not become effective (abolition of the American Selling Price System).

### Reaction of the Trading Partners

There remains the question whether the Trade Bill if adopted in its original version would ensure the other element of the compromise, which is a sufficiently liberal platform to serve as a starting point for further world trade liberalisation. The reaction of the other main negotiating parties is clearly reflecting their scepticism. France has been offering the strongest opposition, and its resistance has grown even stronger because of unilateral US actions in the sphere of trade policy and recent monetary developments. The French have objected in particular to the US claim that the partner countries must make certain concessions in advance in order to progress on the way to trade liberalisation and that they must acknowledge that they have to give more than they will receive<sup>13</sup>. The French saw in this an attempt at securing one-sided and unwarranted advantages and called for preventive sanctions (a special tax on imports from the USA) and a large measure of self-sufficiency for Europe in the agricultural sector in order to counter such aspiration<sup>14</sup>. When the exchange rate of the dollar declined, they argued that this gave US industry increasing advantages in competition in foreign markets. Trade negotiations could only be undertaken when the currency parities established after the dollar devaluation of last spring had been restored and the world monetary system successfully reformed.

Meanwhile the US export embargoes and restrictions on soya products and other farm produce (as well as scrap iron) at the beginning of July gave the French self-sufficiency ideas an uplift while the emphatic US arguments for liberalising the EEC's agricultural policy sounded much less convincing.

Apart from the ad-hoc measures the EC took in the form of export restraints on fodder grains, other farm produce and scrap iron, the GATT talks have been seriously jeopardised. Only as a result of a tenuous compromise between France

<sup>12</sup> Irwin Ross, *Ibid.* pp. 83/84. — Klaus Grimm, Hajo Hasenpflug, *Die handelspolitische Kontroverse EWG-USA (The Trade Policy Controversy EEC-USA)*. In: WIRTSCHAFTSDIENST, No. 4, 1973, p. 190.

<sup>13</sup> Beginn der Hearings über die Handelsvorlage der Administration Nixon (Opening of the Hearings on the Nixon Administration's Trade Bill). *Neue Zürcher Zeitung*, May 12, 1973, p. 13.

<sup>14</sup> Cf. Die US-Protektionisten mit eigenen Waffen schlagen (Beating the US-Protectionists with Their Own Weapons). *Handelsblatt*, May 11/12, 1973, p. 8.

and its EC partners can the new round of negotiations open without fulfilment of certain prior conditions including a binding agreement on the outline of a new monetary system. That France yielded in the end was a matter of tactics and did no more than postpone the dispute. Another clash has thus already been "programmed" into the GATT negotiations. Besides, there is no unanimity in the EC about the itinerary to be followed in the negotiations. It must be feared that different fronts will emerge inside the EC, whether they deviate openly or not, and decisions will be more difficult to reach.

Without dealing in detail with the countervailing positions of the USA<sup>15</sup> it has to be noted that thus far they cannot be seen to have moved any nearer the European views. Any advance is likely to be hampered by the US wish to make progress with the world monetary reform conditional upon satisfactory arrangements in the sphere of trade whereas the French want to link trade and currency matters in the reverse order.

### The USA and the Future World Trade System

Beside all the uncertainties and difficulties to be faced in the Nixon Round there is finally the important question of the way in which the US Government proposes to get over the manifest contradiction between its often stated objective of liberalisation and the protectionist parts of its Trade Bill. It applies in particular to the provisions for protection of US industries against injuries by imports. The missing link is evidently the idea mooted on more than one occasion in political<sup>16</sup> and economic<sup>17</sup> circles that simultaneous with a general liberalisation of trade there must be some attenuation and curtailment of international competition. Otherwise the latter would have such an abrupt and vehement impact on domestic industries as to cause large-scale destruction of capital and great social hardship (unemployment). In such instances it would be imperative to provide protection for a limited period so as to allow the affected parties enough time for adjustments; public adjustment grants would also have to be given. The protection would be successively reduced, and only after an interval would the industries concerned be exposed to the full force of international competition and the positive effects of liberalised world trade be fully felt.

<sup>15</sup> Cf. Hubertus Adebahr, *Zunehmende Regionalisierung des Welthandels? (Increasing Regionalisation of World Trade?)*. WIRTSCHAFTSDIENST, Vol. 52, September 1972, No. 9, pp. 463/464. — Ingo Walter, *US Trade Policy in a Changing World Economy*. Tübingen 1973, pp. 7 ff.

<sup>16</sup> Cf., e.g., W. D. Eberle, special adviser of the US President for trade negotiations (cf. *Handelsblatt*, March 21, 1973, p. 3) and Anthony Solomon, adviser of the Ways and Means Committee (cf. *Handelsblatt*, January 15, 1973, p. 3).

<sup>17</sup> Cf. Ingo Walter, *ibid.*, p. 11.

Any number of historic examples could however be quoted to show the amazing tenacity of "temporary" restrictions. It must also be borne in mind that an extension of the general protective clause of Article 19 of GATT to fit in with the American ideas would involve the risk of a jungle of subsidies springing up and distorting competition all over the world; for the other trading countries would not lose much time before beginning to retaliate by subsidies of their own. The negative consequences of such a development on the international allocation of resources need not be pointed out.

### Doubtful Effects on Competition

Finally — and here lies the gravest objection — this method of approach is altogether unconvincing. Basically it is a return to the well-known argument for educational duties although there are no such differences in the level of development due to historic causes as could justify temporary duty protection (as in the case of the developing countries) to deal as smoothly as possible with innate deficiencies. The industrialised countries are competing amongst themselves with fundamentally equal chances. To protect from foreign competition an industry which is, temporarily or permanently, falling behind in the competitive race would invalidate the selective effects of the market mechanism and eliminate the positive influence of the competitive processes on resource allocation and productivity.

Another essential feature of the American trade concept is the intention to dismantle the most-favoured-nation rule of GATT to make room for bilaterally negotiated concessions based on the principle of reciprocity<sup>18</sup>. The USA can point out with full justification that the principle of most-favoured-nation treatment has been eroded by the existence of the EC and the enlargement of its sphere of influence. Nevertheless this ultima ratio of self-defence would be a relapse into a trade-obstructing and trade-diverting bilateralism. For the time being the quintessence is this: The prospect for successful GATT negotiations is gloomy. Even were results in line with the described American ideas obtained, they would still from the point of view of ensuring the viability of world trade have to be judged a failure. It must be appreciated, however, that the present external economic situation of the USA is partly due to the existence and evolution of the EC. This being so, the EC can do a great deal to overcome the problem by avoiding inexpedient and injurious measures and making contributions of its own<sup>19</sup>.

<sup>18</sup> Cf. Ingo Walter, *ibid.*, p. 8.

<sup>19</sup> Cf. Hubertus Adebahr, *ibid.*, pp. 462 ff.