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Dangerous Trends in US Trade Policy

American trade diplomacy already seems to have bid farewell to the benevolent spirit of Punta del Este. In September the solemn assurance was unanimously given during the GATT ministerial conference not to set up new trade barriers which contravene GATT principles. This, however, did not prevent the US government just two months later from enforcing a "voluntary" restraint of exports to the United States of certain machine tools from Japan and Taiwan and thus opting for the very form of protection whose elimination ranks as one of the priority and undisputed topics on the agenda of the new GATT round. Attempts to induce the Federal Republic of Germany and Switzerland to show similar restraint failed. These two countries must now reckon with unilateral import restrictions, the very threat of which has a discouraging influence on trade.

As the GATT escape clause cannot be cited to discriminate individual countries and since it is difficult to prove the existence of unfair trade practices – the machine tool industry in the Federal Republic of Germany, for example, is neither directly nor indirectly subsidised – the American government has now taken resort to the argument of threatened national security. Irrespective of whether footwear, scissors or, as in this particular case, machine tools pose the alleged threat, however, the security argument can always be construed. The question is whether a second-rate machine tool industry can really serve the security interests of the United States.

The government in Washington cannot seriously believe that the quality of American machine tools will improve if this industry is protected against foreign competition, especially since the same government never tires of praising the efficiency-boosting effects of open markets. In reality, this is a clear case of trade protectionism, the repercussions of which are hardly likely to be limited to the countries directly affected. If, for example, Japanese suppliers try to offset their losses by turning to other export markets – for example, in Europe – the latter will probably retaliate accordingly.

The restriction of machine tool imports is just one of the numerous trade policy campaigns since President Reagan took office in 1981 via which the USA has tried to curb the surge of imports and give a new impetus to exports. The development of American foreign trade flows can quite rightly be termed dramatic. Since 1980 the import surplus in merchandise trade has soared from US \$ 32 billion to roughly US \$ 170 billion. Last year the USA recorded a deficit in high-technology trade for the first time, and the farm products surplus, again a traditional asset, fell to almost zero level.

During President Reagan's first term of office the government primarily responded to growing external economic pressure by introducing protectionist measures – tariffs, quotas and, above all, voluntary restraint agreements – for branches threatened by the competition of imports, e.g. the car and motorcycle, steel, textiles and clothing industries. The underlying objective was called revitalisation, and it was hoped that firms would be able to achieve it via their own efforts and without direct financial and technical support from the government.

There were signs of an about-turn to this policy strategy during President Reagan's second term of office. The government renounced the use of import protectionism. Reagan refused to extend the existing import restrictions for the footwear industry. The reasons he gave for this refusal caused a greater international stir than the refusal itself: the footwear industry, he claimed, had proved itself incapable of revitalisation and could not, therefore, count on further government support. A little later, reaffirming this liberal trade policy line, Reagan vetoed the drastic reduction of textile imports approved of by a large Congress majority. Priority was now given to export-oriented branches, and the new trade policy objective was to open up foreign markets for American goods, services and investments. The main bones of contention were "unfair" trade practices and "industrial targeting".

No matter how great the trade creation effects of this offensive trade policy may have seemed in theory, in practice there are considerable shortcomings. American negotiators are increasingly being pressurised by an aggressive Congress into interpreting the GATT principle of reciprocity sectorally and bilaterally and deciding as it were *ex cathedra* what the word reciprocity means. It is hoped that intractable trading partners will be brought to their senses via the big stick of import restrictions.

Such attempts at intimidation have an adverse effect on the trade policy climate, put economically less powerful countries at a disadvantage and encourage retaliatory action by the trading partners affected. Apart from the understandable annoyance of Americans over the European Community's Common Agricultural Policy the current transatlantic dispute over farm products in the wake of the EC's southward enlargement also clearly reveals the protectionist risks associated with the departure of trade policy from a broadly-interpreted and consensus-based concept of reciprocity.

The strategy of an aggressive opening up of markets would be more readily acceptable if it were matched by a strict continuation of the course of opening up domestic markets and ensuring that they remain open. The example of the footwear industry, however, has not been followed, as shown recently by the imposition of restrictions for machine tool imports. President Reagan's veto on the proposed drastic reductions of textile imports has lost credibility as a result of the USA's extremely restrictive manoeuvring during negotiations on a new Multifibre Arrangement. The protection of the steel industry against foreign competitors has been appreciably enlarged and is now almost total.

What is more, a general, albeit slight, import levy has been raised since 1st December, and oil imports have been subject to a special tax since the beginning of the new year. Together with import restrictions in the forestry sector, these two measures have above all annoyed the Canadians, with whom the USA has nevertheless been conducting negotiations on a free-trade agreement for months. As from 1st July duties will be imposed on numerous previously duty-free products imported by the USA from developing countries. Finally, the much discussed semi-conductor agreement between the USA and Japan shows that import protectionism now also covers the field of high-tech products, which in future can apparently also count on direct financial government backing. There are already signs of financial support for both the semi-conductor and machine tool industries.

If technology export controls, which are supposed to serve national security but lead to considerable uncertainty in international trade, are also taken into account the overall picture is one of a contradictory and inconsistent trade policy which upholds the "law of the jungle" and ignores the adverse effects on third parties. It is hard to discover a clear line of approach, apart from the fact that trade policy is increasingly being shaped by domestic policy considerations and powerful pressure groups, which cannot apparently be appeased via reference to GATT commitments. Trade policy cannot solve the deficit problem. The more it is called upon to do so, the greater the risk of an escalation of protectionism. Trade policy actionism is unlikely to enhance the prosperity of the US economy. All it does is weaken the international trading system at a time when new efforts are being made to strengthen it.

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