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ISSUES IN U.S. INTERNATIONAL TRADE

(By William Barraclough,* Director, Office of International Trade, U.S. Department of State)

It has been just 3 years since the industrialized world began its slide into the most serious economic recession of the postwar period. During these 3 years, there were strong pressures on governments to protect jobs and production in domestic industries and agriculture by limits on imports. The members of the Organization of Economic Cooperation and Development (OECD) pledged not to resort to import restrictions. With a few minor exceptions, they have kept that pledge. Thus, throughout these 3 years, world trade has remained at high levels, enabling all the Western countries and Japan to begin their economic recoveries faster than many economists had anticipated. It was a severe test of our cooperative response to interdependence. It is a test we have passed.

But we are not yet out of the woods. Local problems have caused differences in the timing of recovery here and abroad. In the United States, capital investment and consumer spending were at low levels in 1975. As a result there was a slackened demand for imports. The prevailing exchange rates and other factors stimulated American exports, and last year we had a record trade surplus of over $11 billion. Our 1975 exports—over $107 billion—represent something like 7 percent of our gross national product; 5 years ago we exported only about 4 percent of our GNP.

So trade—export trade, in this case—is of great importance to us. But it will come as no surprise that trade—yes, export trade—is important to other countries as well.

This year, individuals and businesses in America have resumed a more normal pattern of spending and investment. That means they seek more imported goods, and indeed our imports have risen dramatically, and thus far this year we are running a trade deficit of about $4 billion. This means among other things that our trading partners in Europe, Japan, and elsewhere, can increase their exports and thus their rates of economic recovery. And when that happens, they will increase their purchases from us.

I mentioned a moment ago that for the most part the industrialized countries have resisted pressures to close the door to imports during the difficult period we have come through. The governments involved deserve credit for this, since I can assure you the pressures for protectionism were fierce everywhere. Our recent experience has shown

*The views expressed in this paper are those of the author and not necessarily those of the USDA.

that in periods of economic slowdown, holding the line is a real achievement. It has also shown that in such periods, trade liberalization is difficult.

Trade liberalization—the reduction or elimination of tariffs and other barriers to trade—is a goal to which we are committed by national interest and commonsense. It is a goal which the Trade Act of 1974 directs us to work for. We are presently engaged in a new round of multilateral trade negotiations, known as the Tokyo Round. This marks the seventh time since World War II that we have participated in such talks, held under the auspices of the General Agreement on Tariffs and Trade, in pursuit of our national interest in a more open world trading system.

Since trade liberalization involves reciprocal concessions which will change patterns of economic activity, the best time to make such progress is when economies are expanding and strengthening. From all indications, we and our key trading partners are moving into such a period, with economic indicators pointing to economic expansion in most industrial countries next year.

There are warning signs; the possibility of an oil price increase and the economic difficulties being experienced by certain European countries. But we, nevertheless, believe that current conditions for vigorous trade liberalization will be at an optimum next year. This is why we and other major countries have agreed to the goal of completing the current round of trade negotiations by the end of 1977.

In the six rounds of trade negotiations prior to the current Tokyo Round, the focus was on reducing tariffs. Although there are still high tariffs on the books here and abroad, our average tariff on items where we have tariffs, calculated on a trade weighted basis, is now about 9 percent; that of the EC is about 10 percent; and Japan's is perhaps 20 percent.

The Trade Act gives us authority to cut all tariffs by 60 percent and the possibility of eliminating entirely all U.S. tariffs under 5 percent. We are now negotiating a formula for tariff reduction which we hope will result in a substantial reduction in the tariffs of all industrialized countries.

With the gradual reduction of tariffs in previous negotiations other trade restricting measures—variable levies, import quotas, import prohibitions, discretionary licensing systems, and discriminatory standards—have assumed increased importance.

A beginning must be made in reducing or eliminating these nontariff barriers if world trade is to continue to expand. The Trade Act gives us a mandate to negotiate reciprocal concessions in this area. We are attempting to do so. But the complexities are great, the negotiating task difficult, the results uncertain. It is particularly important for our agricultural trade that we make progress in this area, since nontariff barriers are generally more widespread and more troublesome in agricultural trade than in industrial trade. Of course, other countries will be seeking U.S. concessions on what they see as American nontariff barriers to their exports, agricultural and industrial. Whatever we can accomplish at the end of the day must be a bargain in which each side sees benefits.

Let us look, then, briefly at the issues we have to face if we are to achieve a more open trading system, particularly for agricultural products.

The first—and most basic issue—is one which touches all nations. It is the question of how much, if at all, governments can support high-cost agricultural production and then protect it from international competition. Governments traditionally establish agricultural policies according to domestic social and political needs, giving less weight to trade matters or international pressures. This is a fact of life our negotiators must live with. Domestic farm programs normally involve some form of price supports. These, by definition, maintain prices at levels higher than they otherwise would be. As you well know, the net result frequently is surplus production which must be stored or disposed of overseas or in some other way which does not disrupt normal commercial markets domestically.

The problems created by these surpluses are unpleasant to the governments which have to deal with them. However, governments are willing to put up with those problems because of what they believe are overriding social and political concerns. For example, many governments assert they must slow the movement of people from rural areas to cities because the cities are already congested and lack housing and job opportunities. Others, as a matter of policy, encourage people to remain in the rural areas to assure that the land is worked, fields are not lost to overgrowth, erosion does not destroy good land, and the beauty of the countryside is maintained.

Of course, governments also advance economic arguments for their policies of support to high-cost agriculture. Perhaps the most attractive of these during recent periods of shortage and high price is the argument that what is now uneconomical, very high-cost agricultural production will be needed—and eventually will become economical—as the world's need for food increases.

Agricultural support programs justified by the types of arguments I have just mentioned, have two clear effects on international trade: (1) low cost efficient producers are kept out of some markets so that the higher cost domestic producers may sell in those markets and (2) low-cost producers lose third markets to high-cost producers whose governments subsidize the sale of surplus products overseas.

These practices undermine a basic premise of U.S. trade policy—that nations should not pass the costs of domestic programs on to their trading partners. They are particularly disruptive of normal trade flows in agricultural products. It is the U.S. position that these problems must be addressed in the MTN.

A very real challenge in agricultural trade negotiations is to find ways to reduce forms of protectionism which are not easily quantifiable. It is relatively easy to negotiate tariff cuts, because it is possible within limits to estimate the probable trade effects of a certain tariff reduction on a given product. It is also generally acknowledged that the purpose of tariffs is to restrict imports (although they are important sources of government revenue in some—mainly developing—countries).

On the other hand, the trade effects of most nontariff barriers are difficult, sometimes impossible, to measure. In addition, the purposes of many nontariff barriers are frequently in dispute. Who can measure the trade effects of a requirement that an item may be shipped only in a certain size container? Who can measure the trade effect of a prohibition on advertising? Of a lengthy inspection process? Of a complicated form? And how can we negotiate a procedure which one side says is necessary for statistical records, but the other side says is calculated to discourage imports? These are all real examples from a very long list. Human ingenuity has not been found wanting when it comes to clothing trade restrictions with more noble motives.

A second need is to make sure that when import barriers are lowered, imports do not increase in such huge amounts or in such an erratic, unanticipated fashion as to do real damage to the economy of the importing country. Thus, we need mechanisms—which we call safeguards—to make sure that the process of increasing market access to overseas suppliers does not get out of control and inflict net injury instead of bringing net benefits to importing countries. These safeguard measures must work quickly and fairly. There must be effective procedures for resolving disputes which arise when things do not go as planned. I am optimistic that the MTN will make substantial improvements in this area. If we do, it should be easier for us to work toward increasing our access to overseas markets while granting reciprocal concessions to those who hope to sell more goods to us.

There remains the problem of unequal competition between exporters for third country markets. As I have suggested, as long as governments adopt farm policies which encourage the production of surpluses, they will be tempted to dispose of the surpluses by subsidizing sales to overseas customers. This is usually done by selling from storage at less than the acquisition price. The EC, which is holding nearly one and a half million tons of skim milk powder in storage, is buying that product for over $1,000 a ton, and is willing to sell it overseas for less than half that. Many countries have similar practices; we did until a few years ago. Such practices penalize producers who seek to sell in foreign markets but who do not have or do not need government subsidies to support them.

There are two ways to approach this problem. The first is to limit production in high cost agriculture, or to increase consumption, build food stocks and increase food aid. These policies limit or eliminate surpluses available for export. This approach, while logical, faces very tough sledding in the trade negotiations because countries are generally unwilling to permit international agreements or international bodies to interfere with domestic production policies.

The other approach is to prohibit or regulate the international disposal of surpluses generated as a result of production incentives. To be realistic, such control should be aimed only at surpluses which exist owing to government incentive programs. This approach also presents negotiating problems, the main one being how to define and classify government incentives. How would one classify a subsidy for fence-building or government sponsored research which develops improved seeds or fertilizers?; the activities of Agricultural Extension Officers?; the Government's part in a Soil Conservation District or in a flood control program?

The present GATT provisions on subsidies are too vague to serve as a clear guide. In the current MTN, the United States has proposed a code on subsidies and countervailing duties, the latter being import charges used to neutralize the price advantage provided by export subsidies. Our proposal would classify subsidy practices, prohibiting direct export subsidies, subjecting others to greater discipline, and permitting certain kinds which are widespread and have a negligible, very indirect effect on exports.

There are, as you know, many political considerations which affect our relations with these countries. But I am speaking today only to the economic ones. The tendency and ability of state trading agencies to make unpredictable and large scale swings in and out of commodity markets (particularly the grains market) is well known. Our response in grains was to negotiate a long-term commitment from the Soviets on annual purchases, providing our producers with an assured, stable market. There are, however, less dramatic problems with state trading enterprises which merit attention.

State trading enterprises do not have to make a profit to survive; they establish prices based on perceptions of social needs. This is possible in economies where producers need not be directly concerned with competition or profits.

When such producers export to other countries, how can the importers judge if there is an element of subsidy in the import price? How can the importer determine fair market prices in the home country? For trade in the other direction—where the state trading country imports a consumer item from a market economy company and then sets the retail price several times higher than the import price—how should the exporting country deal with the trade effect? How we address these issues in the trade negotiations is, frankly, not yet clear.

We face very tough negotiations on this issue, and we have a major stake in a successful outcome. At present, one important way we can help our own cause is to resist new programs to subsidize the export of surplus commodities of which the U.S. Government now holds large stocks.

Another issue I would like to mention today is the development of trade relations with various communist and socialist countries collectively known as "state trading" countries because of the fact that their economies are not market oriented. The only certainty is that they will become increasingly important issues as our trade relations with these countries increase.

CONCLUSION

I have mentioned some of the major issues facing us in the Geneva trade negotiations. There are others since the agenda in this round of negotiations is probably broader than in any previously undertaken. At times many of the problems look insurmountable. But I am convinced that we can—with a firm will and the right dose of realism—advance in every single area. If we are willing to resist protectionism as we ask others to do, and if we are willing to impose on ourselves the same sort of discipline and restraint that we would impose on our trading partners, I am confident that we will be able to conclude the current round of trade talks with a more open world trading system which benefits us and all other countries in the years ahead.

Some agricultural trade experts say that agricultural trade, because of its close relationship to domestic farm policies, will be changed only in response to domestic pressure and not to the "carrots and sticks" of multilateral trade negotiations. The United States pushed hard for meaningful negotiations on agriculture in the last—Kennedy Round—negotiations. Although tariff concessions on several hundred million dollars worth of trade in agricultural commodities were exchanged, the results were disappointing to many. No lasting progress was made in grains, the key commodity group for the United States. Nor did the meat and dairy groups, which met throughout the Kennedy Round, arrive at positive results.

It is still too soon, even 3 years into the current round of negotiations, to tell if we will be more successful this time around. We continue to believe that agricultural trade can be expanded and liberalized through negotiation. Indeed, we have little choice but to try—and to try hard. There is a clear and compelling need for a degree of "disarmament" in the field of agricultural trade which is unlikely to be accomplished by separate unilateral decision. The costs of agricultural protection around the world continue to rise and we as efficient producers bear the greater burden of these costs. I am optimistic that an agreement can be reached in which governments will be willing to accept constraints on their unilateral actions to the benefit of all countries.