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RECIPROCITY IN INTERNATIONAL TRADE
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There is a growing concern in Congress that the United States is being treated unfairly in international trade, that U.S. exports do not receive the same treatment we give to exports of other countries, and that the United States does not receive "reciprocity" in foreign trade.

This issue has generated a great deal interest in Congress, resulting in various legislative proposals now pending before the 97th Congress. Our Info Pack includes a discussion of U.S. international trade policies as well as information on the current status of legislative proposals.

We hope this information is helpful.

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COMPLIMENTS OF
Gene Snyder

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OVERVIEW OF TRADE TERMINOLOGY

I. Definitions

GATT (General Agreement
in Tariffs and Trade)

The GATT is a multilateral agreement, subscribed to by 85 governments, that delineates rules for international trade in goods. The primary objective of the GATT is to liberalize world trade. GATT also refers to the organization in Geneva which enforces the agreement.

MFN (unconditional)

Unconditional "Most-favored-nation" status involves guaranteed equal treatment to all countries without requiring directly reciprocal concessions. Unconditional MFN treatment, consequently, translates into nondiscriminatory, equal treatment.

MFN (conditional)

Conditional MFN has usually entailed either the denial of a trade concession to one country while giving that same concession to other countries, or the extension of a concession to a particular country without granting the same to any other country unless they also grant a reciprocal concession.

National Treatment

National treatment insures that a country treats foreign persons or firms doing business in its country the same way it treats domestic persons or firms.

Non-Tariff Barriers
(NTB'S) Also Called
Non-Tariff Distortions
(NTD'S)

Government measures or policies other than tariffs that impede or distort the flow of international commerce such as import quotas, subsidies, and product standards.

Reciprocity

The term has at least two different meanings. The traditional meaning embodied in GATT relates to a negotiated reduction of a country's import barriers in return for similar concessions from another country. Balanced concessions, in turn, are expected to lead to a balanced impact on trade (i.e., exports are expected to increase by as much as imports).

A newer definition of reciprocity aims at making the level of barriers to trade equal (in contrast to making the negotiated concessions equal). Congress had the former definition in mind in writing section 126 of the Trade Act of 1974. There reciprocity is defined as substantially equivalent competitive opportunities on a sector by sector or product by product basis. The objective is to make competitive opportunities to sell, for example, computers in Japan, equal to those afforded by the United States.

Trade Agreements Act of 1934, as amended

The historic U.S. trade law that provided authority for the U.S. government to enter into bilateral agreements with other countries for reciprocal tariff reductions. Such reductions were then extended to other countries through most-favored-nation clauses.

Trade Agreements Act of 1979

The Trade Agreements Act of 1979 approves and implements the trade agreements negotiated and entered into by the United States in the Tokyo round of the Multilateral Trade Negotiations (MTN).

Tokyo Round of Trade Negotiations

The negotiations formally initiated by the 1973 Tokyo declaration. The Tokyo Round, also called the Multilateral Trade Negotiations (MTN), differed from the previous GATT negotiations in that more countries were involved and greater efforts were made to eliminate, reduce, or discipline non-tariff barriers to trade. The earlier negotiations dealt almost exclusively with tariffs.



**U.S. TRADE REPRESENTATIVE BILL BROCK'S STATEMENT ON RECIPROCITY
MARCH 24 BEFORE THE SENATE FINANCE SUBCOMMITTEE ON
INTERNATIONAL TRADE AND FINANCE**

The United States has long been the world leader in promoting more liberalized trading practices and policies. As a nation, we have initiated every major multilateral negotiation, including the Kennedy Round in the 1960's and the Tokyo Round concluded in 1979. We will not change course now.

We intend to continue more vigorously than ever before our efforts for a freer world trading system.

Last summer, I appeared before this Subcommittee to present the Reagan Administration's statement on U.S. Trade Policy. The cornerstone of that policy was expressed as follows:

"Free trade, based on mutually acceptable trading relations, is essential to the pursuit of our goal (of a strong U.S. economy) We will strongly resist protectionist pressures. Open trade on the basis of mutually agreed upon rules is in our own best economic interests ...

Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions, while adhering to the principle of reciprocity in our trading relations.

(Toward this end) we will strictly enforce United States laws and international agreements and we will insist that our trading partners live up to the spirit and the letter of (such) agreements and that they recognize that trade is a two-way street."

I reiterate these statements of policy today. The goal and intent of the legislative proposals — to make sure trade is a two-way street — before this Subcommittee are consistent with, and are a natural extension of this trade policy. Increased equity and reciprocal market access and opportunities for U.S. exporters and investors has been, and will continue to be, a goal of this Administration. Insofar as Congress and the Administration are both examining ways to better achieve this goal within the context of our overall policy and our international obligations, we are in

agreement. However, a clarification of our purpose is essential, for a distorted use of reciprocity could undermine an already vulnerable multilateral trading system, trigger retaliation abroad, further depriving the U.S. of export markets, and erode, if not eliminate our role as the world leader in liberalizing international trade.

Our commitment to free trade requires a bold positive action, not just passive lip-service to an ideology. The dynamics of trade are such that if we do not move forward, then we slide back.

We make no contribution to the goal of free trade by ignoring attacks upon it by others or by not pursuing increased market access for our goods, services, and investment. Clearly, no nation can long sustain public support of any policy unless its people sense that there is equity and tangible benefits for them in the application of that policy.

Our adherence to a free trade policy requires us to strictly enforce existing trade agreements, to strengthen our domestic trade laws to make them more useful and responsive to the needs of those they protect, and seek expanded coverage of trade issues under the mutually accepted international framework of the General Agreement on Tariffs and Trade.

In following this course of action, we must not lose sight of the fact that the United States and its trading partners must work within the framework of our international obligations. The whole reason for the existence of the GATT lay in the desire to eliminate the trade destructive retaliatory practices of the two decades preceding World War II. It has worked, if the expansion of world trade over the past thirty-five years is any indication.

Frustration with GATT's seeming inability to deal with new forms of barriers and trade distortions is no justification for U.S. abandonment of our commitment to free trade, and certainly no justification for our resort to similar negative unilateral actions. On the

contrary, it is clearly our best reason for renewed efforts to strengthen the international code of conduct and make it work. We must view the many pieces of trade legislation that have been introduced in this Congress in this perspective.

Four principles will guide our approach to any suggested legislation:

First, it must be absolutely consistent with current obligations under the GATT and other international agreements.

Second, it must stress multilateral rather than bilateral or sectoral solutions.

Third, it must focus on strengthening existing international institutions and expanding international agreements to include those areas, such as services, investment and high technology not presently covered.

Fourth, it must strengthen the negotiating mandate and flexibility of the President in his efforts to achieve a more liberalized world trading system and a reduction of barriers to U.S. workers and enterprises.

As U.S. Trade Representative, I have attempted to vigorously pursue such a course of action. During the past year my office has initiated 10 Section 301 investigations involving 7 countries for unfair trade practices. We are now pursuing international dispute settlements in these cases. Five such investigations were recently initiated concerning the use of subsidies by European nations on production of specialty steel. And we have assisted many smaller industries by providing technical assistance on the different processes available for seeking relief from unfair trade practices or competition.

It is my intention to continue these efforts during the coming year. There is more work to be done, and I commend the members of this Subcommittee for their contributions. You have identified areas in need of attention: trade in services, equitable treatment for U.S. investors, and increasing competition in the high technology field.

While the United States can move domestically on these issues through legislation, an international forum is necessary to have our interests reflected in the world trading systems. To this end, the United States is actively participating in preparations for a Ministerial level meeting of the GATT next November. We hope to use this meeting not only to review the operation and implementation of the MTN agreements, but also to chart a course for our international trade activities for the balance of the 1980s. Among our key objectives are the initiation of work programs on services, investment and high technology. We also hope to use the Ministerial to renew and invigorate international efforts to bring trade in agricultural goods more closely into the disciplines of industrial trade.

This Administration believes that there are useful elements contained in many of the legislative proposals under consideration here today and we would welcome the opportunity to work with the Chairmen and Subcommittee Members in both the Senate and the House. While we cannot comment on each provision of every bill today, I do wish to outline those elements the Administration would find beneficial.

Tools To Increase Market Access in Services:

In contrast to trade in goods, we are currently operating without any meaningful international rules in services trade, an area where we are experiencing expanded trade opportunities and growing barriers to them. It is therefore timely to clarify the President's authority to negotiate international agreements for services. Such a clarification should stress the need for close cooperation with states that have key responsibilities in some of our service sectors.

Clarification of the inclusion of services under the authority granted by Section 301 of the Trade Act would demonstrate to our trading partners the United States' resolve in seeking equitable treatment in this area. In addition, Congress' specific mandate to negotiate a multilateral framework agreement for trade in services would provide the Administration with the tools to make such a goal a reality.

Tools to Insure Equity in Direct Foreign Investment Abroad:

As in the case of exports of services, there are few international agreements to protect the interests of U.S. investors abroad. A clarification of the President's Section 301 investigative authority with respect to unfair practices in the area of investment is necessary. While it has always been and will continue to be U.S. policy to welcome market-oriented direct foreign investment into the U.S., it is also U.S. policy to obtain equity for U.S. investors abroad to the greatest degree possible. However, since the implementation or pursuit of these two policies may occasionally create operational conflicts, the investment issue deserves careful consideration by Congress and the Administration.

Further, like trade in services, additional negotiating authority in this area is an important and often necessary step toward addressing many international problems in this area.

Emphasis on Reciprocal Market Access in Section 301:

Several legislative proposals have been made to emphasize reciprocal market access or similar competitive opportunities in the consideration of a Section 301 case. Reciprocity as a principle embodied in the GATT and in our trade laws, and increased market access as a goal of any free trade policy, is welcomed

by the Administration. However, we must not enact laws which will force U.S. trade policy to require bilateral, sectoral, or product-by-product reciprocity.

In our view, the primary and preferable method for obtaining substantially equivalent market access should always be to seek liberalization of foreign markets rather than to raise equivalently restrictive barriers of our own. Our goal should be to move our trading partners forward through negotiations to a level of market openness more similar to our own.

The concept of what we would term "global reciprocity" — that is, the belief that the aggregate benefits derived by each party to the GATT are substantially equivalent to concessions given by any other party — has been the principle underlying our world system for trade in goods since the inception of the General Agreement in 1948. Though the GATT and most-favored-nation (MFN) system has fallen short in some ways, the United States and other countries have greatly benefited from this system. Therefore, we intend to adhere to our mutually accepted obligations under the GATT, and that must discipline our understanding of a reciprocity principle.

Because our present trade laws and trading system already provide the tools to seek reciprocal market access in our trade in goods, the Administration believes that the pursuit of more open foreign markets becomes even more important in its application to reaching non-tariff barriers in areas not adequately covered by the GATT, other international agreements, or U.S. law, like services and investment.

Modification or Suspension of Existing U.S. Tariff and International Tariff Concessions:

Some proposals in the tariff area would provide the President with more flexible authority to modify our international tariff concessions and U.S. tariffs. Such flexibility could provide authority that would assist our efforts to obtain increased market access for U.S. goods.

One such authority that expired in January of this year is Section 124 tariff reduction negotiating authority of the President. As the Chairman is aware, the Administration is seeking an extension of this law and legislation is currently pending before this Subcommittee and the House Ways and Means Committee.

High Technology:

Focus should be directed toward the need for multilateral consideration of high technology trade, a priority item in our work on the GATT Ministerial agenda, and one which many countries legitimately recognize as a critical area for economic development. I ask that Congress examine the desirability of Presidential authority to negotiate the reduction of barriers to trade in high technology goods, including the reduction of tariffs. Such a provision would give the President

specific authority to reduce U.S. tariffs on high technology products in exchange for equivalent concessions.

Other legislative proposals also deserve more careful examination. There are areas which have not been fully examined. I refer to the erosion or rejection by some nations of industrial and intellectual property rights, especially in more technologically advanced products, or the impact of foreign industrial planning and country targeting on an open market such as ours. A thorough examination of these issues will be of benefit.

While there is much good in the ideas generated by this Congress and this Committee, there are elements of these trade bills which we believe would be problematic, if not impossible to support.

Extensive Reporting Requirements Tied to Section 301 Investigations:

A number of the bills pending before Congress would require extensive and continued analyses of foreign barriers and require submission of a report on these analyses to Congress together with an indication of what action the Administration might take to eliminate the barriers. The idea of developing a list of foreign barriers is a good one and one that we have already followed to some degree. For example, we have developed a list of foreign practices in the services sector as a first step in preparation for an eventual multilateral negotiation on services. However, I am opposed to linking such analyses to Section 301 by requiring that foreign practices be labelled in accordance with the standards for action under Section 301. For example, requiring the Administration to state that a particular foreign practice is inconsistent with the GATT or Codes before the international dispute settlement body has had the opportunity to review the issue could undermine the integrity of the international dispute settlement system. Similarly, to label any foreign practice as meeting one of the standards for action under Section 301 would prejudice a 301 investigation on the subject.

Addition of an Independent Standard which Could Lead to Sectoral Reciprocity:

As noted earlier, this Administration welcomes global reciprocity as an objective or principle of overall U.S. trade policy. However, to establish reciprocity on a bilateral, sectoral or product-by-product basis would undercut any realistic negotiating position. A new independent standard for unilateral action under Section 301 authority could mean that instead of judging the fairness of foreign market access according to internationally agreed standards, we would be required to judge it by the access accorded to foreigners

in the U.S. market. That kind of result would undermine the multilateral approach to international trade and would be opposed by the Administration.

The issue of reciprocity is complex and a U.S. reciprocity policy, therefore, needs to be formulated and implemented in a comprehensive manner. It is a basic fact of economic life that national economies differ. Countries don't produce or necessarily have the capability to produce everything. For the past 35 years we have had to take this fact into consideration in negotiating trade agreements under the GATT.

We knew that we couldn't negotiate access to the Japanese market for U.S. wheat producers by offering access to our market for wheat to the Japanese. The Japanese are in no position to export wheat to us and would be understandably reluctant to accept such a deal. Likewise, we couldn't expect to negotiate access to foreign markets for our computer exports by offering access to our computer market to countries which don't produce and which don't expect to produce computers. Therefore, a narrow sectoral approach to trade negotiations could not be productive.

Instead, we have negotiated agreements with our trading partners which cover a broad range of sectors, with an overall balance of concessions which we would call reciprocity. Nor can I support the use of the term reciprocity if it means seeking bilateral balance in the narrow sense. Even given the problems we face with Japan in seeking greater market access, it would be dangerous to seek a bilateral balance of trade with them as our standard of fairness. If we were to do so, other countries with which we maintain trade surpluses (such as the EC) would certainly pursue the same policy with regard to the U.S.

COMMERCE SECRETARY MALCOLM BALDRIGE'S TESTIMONY ON RECIPROCITY MARCH 24 BEFORE THE SENATE FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE

Mr. Chairman, I am pleased to appear before this Subcommittee today to discuss my views on reciprocity and related legislation now under consideration by the Congress.

The concepts of equal opportunity and market access which are the genesis of current reciprocity legislation are the core principles of free trade philosophy. Without such equality, all nations engaged in international trade lose the benefits from comparative advantage.

Since the establishment of the General Agreement on Tariffs and Trade in 1948, member countries have been committed to a system of multilateral trade arrangements to reduce tariffs and other barriers to trade for the reciprocal benefit of all. The United

In view of the principles and problems which I have set forth today, one can say that there are elements in each reciprocity bill which we could support as well as elements which would pose difficulties for the Administration and for the world economic order. Some of the bills under consideration at this hearing today in one way or another attempt to provide for the improvement and strengthening of our negotiating authority and leverage in areas of critical importance to the Administration such as services, investment and trade in high technology goods. Together, some of these provisions could, in combination, prove useful in our efforts to address these critical issues with our trading partners at the GATT Ministerial as well as in overall efforts to preserve by strengthening the international trade and investment system throughout the remainder of this century.

Conclusion:

As we explore the issues raised by the legislation now before the Senate trade subcommittee, the United States will again be assuming an important leadership role in promoting freer and fair trade. As the initiator of every major negotiation, this is not an unusual or unexpected responsibility.

This Congress and this Administration fully comprehend that agreements on services and investment must be negotiated, that the GATT must be tested and strengthened, that agreements must be enforced, and that equity of market access sought.

Throughout this exercise, let us remember that the decisions we make will set the tone in world trade centers. It is with this sense of responsibility that we will work to open foreign markets, not erect new barriers. Any other action would be contrary to the interest of our nation and the world trading system.

States is committed to the GATT system and to extending and strengthening its disciplines. The United States has been well-served by the GATT system and that system has shown itself to be an adaptable force for trade liberalization through its various negotiating rounds. We hope that the upcoming GATT Ministerial in November will focus on the challenges of the future, particularly in the services and investment area. We will certainly encourage all member nations to join with us to expand equal opportunities in each others' markets.

The Need for Equitable Market Access

Despite the gains in eliminating barriers to free trade over the past thirty years, there remains a need

for greater, more equitable, access to foreign markets; and a more concerted effort on our part and by our major industrial trading partners to make this happen. I believe that the United States has led this struggle and is widely recognized for having and maintaining the most open, the freest and fairest market system in the world.

The international system has expanded greatly from the original 48 GATT members to one in which over 100 nations participated in the last major round of trade negotiations. The existing rules did not envisage this vast expansion of the trading system.

More importantly, we are witnessing increasing deviations, in certain areas, from the fundamental principles underlying free trade. As successive trade negotiations over the past 30 years have peeled away traditional trade problems, they have revealed deeper and more difficult obstacles to trade. Nations which have agreed to reciprocal tariff reductions have often simply raised more subtle nontariff barriers to protect particular sectors which in turn serve to deny reciprocal market access to others. National preferences for local products, industrial policies which foster or protect particular sectors, export credit subsidies, closed distribution channels, regional investment incentives, and hundreds of other devices have emerged which still prevent the functioning of free markets. These inequities coupled with the present global economic downturn have considerably weakened adherence to free trade principles and made more sharply unfair the denial of market access on an equal basis.

In addition, existing arrangements within the GATT have been limited in focus to commercial trade in goods. There are currently no adequate multilateral disciplines in key areas such as trade in services and direct investment. This administration has already stated its position that the international trading community can no longer ignore comprehensive action in these areas.

New Statutory Authority

The administration believes that there is a need to strengthen and clarify the tools available to the President to provide more equitable market access in foreign countries to American business.

First, the Administration supports legislation which would provide a statutory mandate for the President to undertake negotiation of international rules in the

area of services and investment. There are few agreed upon international disciplines governing services and investment. An explicit Congressional mandate would be useful in gaining more cooperation from our trading partners in our efforts to make progress in these areas.

Roughly 7 out of 10 Americans are employed in the services sector. The services sector accounts for approximately 65 percent of U.S. GNP. Based on data collected by Commerce's Bureau of Economic Analysis, we recently estimated that international activities in services — exports, and income from overseas affiliates — amounted to \$128 billion in 1980. Continued benefit from these trade flows is increasingly threatened by barriers erected in foreign markets. We must make it crystal clear to our trading partners that we are united in our resolve to remove these barriers and that we have the political will to do so.

Secondly, the Administration may be willing to consider new statutory authority permitting trade complaints based on inequitable market access. Such authority, if properly defined, and that may prove difficult, could strengthen the President's hand in dealing with foreign situations where equitable treatment does not exist and where international discipline is inadequate or nonexistent. The Administration welcomes the opportunity at a later time to work with the committee or its staff on the specifics of such a provision. I would note, however, that any such provision should not stem from a desire to achieve narrow bilateral trade balances in specific sectors. Nor do I believe that we should establish a standard that would move us in the direction of sectoral reciprocity. However, consistent with our international trade obligations, we must make clearer that the pace at which equitable treatment has developed has not been adequate and that present and foreseeable economic realities urge us — all of us in the multilateral system of world trade — to speed up this process.

Because the United States is the largest trading nation, we have gained much from free trade and many nations of the world have benefitted greatly from our open market practices. But we also lose much when trade is artificially distorted and this must be an element to be considered. Statutory authority clarifying and strengthening the President's ability to deal with inequitable market access can be a means of increasing the gains from free trade.

I would be pleased to respond to any questions from your committee, Mr. Chairman.

Open-Door Policy

Reaganites Plan Trade Offensive to Prod Europe, Japan to Admit More U.S. Goods

By ART PINE

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Reagan administration is preparing a serious foreign-trade offensive aimed at prodding Western Europe and Japan—especially Japan—to open their markets to more U.S. goods.

At the same time, U.S. officials are considering dropping America's customary golden-rule stance on trade and adopting a new "reciprocity" strategy: The U.S. would penalize countries that don't open their doors to American businesses by limiting those countries' access to the U.S. market.

This strategy is "something I personally think we should study hard," says Commerce Secretary Malcolm Baldrige, one of its chief advocates.

The new, aggressive approach comes amid a world-wide recession that has made America's trading partners reluctant, if not sure to refuse, to reduce trade barriers further. If anything, the sentiment in Europe is to increase protection for domestic industry.

Growing Frustration

But as the recession hits harder in this country, it is arousing growing frustration, particularly in Congress, over U.S. inability to open more foreign markets to American goods. "Increasingly we're facing the question 'What do we do next?'" says Sen. John Danforth, a Missouri Republican who is the chairman of the Senate Finance subcommittee on international trade.

Proponents of the reciprocity concept argue that it is nothing more than the "fair trade" approach called for by U.S. businessmen for decades. But previous administrations and Congresses have rejected the idea, and critics say it would mark a departure from the Reagan administration's free-trade policies. Nonetheless, the incumbents at both ends of Pennsylvania Avenue—whether because of pressure from businessmen or worry about unemployment—are leaning more in favor of the idea.

Considering all the pressures one way or another, Robert Hormats, assistant secretary of state for economic affairs, views 1982 as "a watershed year." The world trading system is at a crossroads, Mr. Hormats says: "Either we'll succeed in getting our trading partners to begin reducing existing subsidies and trade barriers, or countries will begin reacting and tightening up. What happens in the next few months could be crucial."

Although not yet finally approved by the President, the new strategy is already getting mixed reviews from trade experts outside the government. They generally agree that past efforts at opening up foreign markets haven't always worked well. But some doubt that the new approach will be any more successful. Moreover, there are fears that the reciprocity strategy may be pushed too far.

Danger in Congress

Heien B. Junz, an analyst at the New York economic consulting firm of Townsend-Greenspan & Co., warns that if the administration seeks new legislation to back up its reciprocity approach, it could risk a protectionist spree in Congress. "This could become as much a Pandora's box as the human-rights issue did," she says. In the past, uneven application of U.S. human-rights standards tended to hinder American exports.

By far the most ambitious of the Reagan administration's foreign-trade plans for 1982 is a major campaign to break down Japanese barriers to American business—not just in sales of commodities and manufactured products but also in services such as banking and insurance and in investment.

U.S. efforts to get Japan to open its markets have failed before. But this time, the U.S. has a new tactic: Instead of seeking concessions on specific items, such as citrus exports, it will prod the Japanese to reconsider their entire import policy.

"What we want them to think about is, Why is it that American industries that find they're competitive in Europe can't succeed in the Japanese market?" says one U.S. trade official, summing up the new approach. "That involves the whole gamut of trade and investment."

Agenda for Europe

The U.S. agenda for Western Europe is less sweeping but potentially just as frustrating. Despite the continuing high unemployment there, the administration plans to revive three longstanding trade disputes, involving agriculture, textiles and steel.

U.S. strategists want the European Common Market to stop using its price supports to finance artificial crop surpluses that are exported in competition with American harvests. Washington also wants the Europeans to stop subsidizing basic industries such as steel and textiles—a difficult demand for them to consider in view of record employment in those industries.

U.S. officials also hope to convene a ministerial-level conference next November to review the 1978 international agreement that lowered tariffs and other trade restrictions. Such a conference could open the way for a new round of talks—possibly in 1984 or later—aimed at reducing subtle barriers to trade in services and to international investment.

U.S. Trade Representative William Brock concedes that the whole agenda is an ambitious one, but he insists that new initiatives are needed to maintain a healthy flow of world trade. While contending that the U.S. hasn't yet turned protectionist, he notes that Congress is becoming impatient.

"A lot of things are coming to bear, both negative and positive," Mr. Brock says. "The trade pressures are the most intense we've had since the early 1970s. There'll be a lot to do just to keep the system working."

Risk of Backsliding

A similar view is expressed by Alan Wolff, a senior U.S. trade official during the Carter administration. "There hasn't been as great a risk to the world trading system in the postwar period," Mr. Wolff says. He adds that the U.S. will be lucky to prevent backsliding toward protectionism, let alone to liberalize trade.

Harald Malmgren, who held a similar post during the Johnson administration, questions whether the U.S. should be pushing Europe on old issues such as agriculture and steel when the Continent has been hit by recession. "It's just fighting yesterday's battles," he warns.

How hard the administration will push the reciprocity idea isn't clear yet. Secretary Baldrige says he is advocating the plan strongly, but other strategists, including Mr. Brock, seem more cautious.

If the policy makers proceed as proposed, the U.S. would continue to maintain essentially open markets for foreign goods, services and investment. But if other nations refuse to reciprocate by lowering their barriers, Washington would respond with restrictions of its own.

Mr. Brock cites, for example, a provision included in the Senate-passed telecommunications-deregulation bill that would empower the Federal Communications Commission to bar sales of Japanese telecommunications equipment if Tokyo doesn't do more to allow U.S. companies into its markets.

Law Under Review

It also isn't clear whether the administration will seek new legislation to bolster such an approach. Experts seem split over whether the 1974 and 1978 trade acts provide sufficient authority to carry out the strategy. Mr. Brock's office is reviewing current law now.

But sentiment for reciprocity legislation is strong on Capitol Hill, where frustrated lawmakers view it as an attractive compromise between more blatant forms of protectionism, such as import quotas, and slower-moving negotiations seeking to open up foreign markets.

Missouri's Sen. Danforth already is preparing legislation that would empower the administration to impose new trade barriers in cases where other nations block U.S. business. Rep. Joseph Gaydos, a Pennsylvania Democrat who is chairman of the House steel caucus representing hard-hit steel-producing areas, has drafted similar legislation.

However, the administration may not be able to keep Congress in check if it proposes such legislation. In addition, some trade experts contend, the whole approach may not even be legal under the General Agreement

on Tariffs and Trade, which regulates world trade.

Mr. Brock concedes that the reciprocity issue "would have to be handled carefully" even under the best of circumstances. GATT rules allow countries to retaliate against other nations' trade barriers only on a case-by-case basis. And the rules don't cover banking and investment.

The administration already has begun prodding U.S. trading partners for consideration of its 1982 agenda. At Mr. Brock's invitation, trade ministers from the U.S., the European Common Market, Japan and Canada will meet in Key Biscayne, Fla., Jan. 16 and 18. And the administration has started talks with the Japanese with the aim of pushing them to open their markets further.

Along with the thornier issues, the U.S. agenda has two other items likely to keep negotiators busy. Mr. Brock says he wants to keep the administration's pledge to help developing countries win more access to world markets. Plans still are vague, however, and the outlook is uncertain.

And the administration hopes to press both Western Europe and Japan to go further in reducing export subsidies to their industries—thus easing subsidized competition for American products. The countries involved agreed last summer to take a first step by raising for six months their interest rates on loans financing exports. But that agreement will expire in May.

The proposal for a new round of negotiations on trade and investment in the mid-1980s—which the U.S. hopes to push at the ministerial-level talks next November—also is expected to be difficult to sell. Thus far, the major trading partners haven't grappled at all with reducing barriers to international investment.

The U.S. wants primarily to talk about reducing restrictions on trade in services: paring "performance requirements" that force foreign-owned companies to buy locally or hire minimum numbers of local workers; and setting new rules for trade in high-technology goods and services.

No one expects overnight progress on any of these issues—and particularly on opening up markets in Japan. But the administration seems determined to move ahead anyway.

(editorial)

The Reciprocity Boomerang

A dangerous word is falling from too many lips in Congress and the administration. The word is "reciprocity," and it's being spoken of favorably by U.S. Trade Representative William Brock, Commerce Secretary Malcolm Baldrige and powerful legislators such as John Danforth, chairman of the Senate international trade subcommittee. It threatens to convert the mutual gains from our international trading system into mutual loss.

The goal of "reciprocity" is to close off U.S. markets to trading partners, principally Japan, that fail to lower their own barriers to American wares. As a threat, it may prove useful in the administration's commendable "get-tough" efforts to open foreign markets for U.S. agriculture and high-technology products and service industries. But it's a threat that will most likely boomerang, and wreak havoc on our economy as well as the delicate balance of international trade.

For one thing, people in glass houses shouldn't throw stones. Though the U.S. is the most open of all major industrial economies, we have plenty of protectionist policies of our own. Enough, indeed, that if other countries pursued a "reciprocity" policy of the sort being bruted about in Washington, our exporters would have good reason to fear a cutoff of lucrative markets. In fact, the growing protectionist forces in Europe are eagerly embracing the logic of reciprocity when they threaten to restrict imports from the U.S. as tit for the American tat against European steel. Since the U.S. has a whopping trade surplus with the Common Market (\$11 billion last year), a reciprocity policy would be foolishly self-destructive.

It's important to remember that import barriers hurt our economy, by

denying U.S. consumers and producers access to the highest-quality and lowest-cost goods available. This is true whether or not foreign markets are open to American goods. As many Japanese government officials recognize, Japanese high-technology industry is being penalized by the reluctance of Nippon Telegraph & Telephone to buy sophisticated products from overseas, just as U.S. manufacturers are put at a competitive disadvantage by American protectionism in steel. A reciprocity policy would raise American prices, lower competition and innovation and cut off our nose to spite our face.

Besides, let's not kid ourselves about trade barriers in Japan. Yes there are many, and yes they should be removed. But Japan's \$18 billion trade surplus with the U.S. in 1981 would not have been greatly reduced if trade between the two countries were completely open. It's hard to imagine that Japanese restrictions on beef, citrus, services and semiconductor and other high-technology imports greatly outweigh the effects of U.S. restrictions on Japanese auto, steel and TV exports as well as our own refusal to sell Japan Alaskan oil.

The biggest danger of reciprocity legislation is that it would put on automatic pilot a weapon that protectionists could use at will. Every country has unfair trade barriers, but through painstaking multilateral negotiations many of them have been lowered. A reciprocity law would undo this delicate balance, by encouraging one country to jack up its barriers any time it was irritated by another. Since there are always irritations in trade policy, it's hard to imagine a surer recipe for trade wars and resulting world depression. That's a kind of reciprocity, but not one that any of us want.

Lawmakers Ponder 'Reciprocity' in Trade

WASHINGTON

Congress is gearing up for consideration of what could be the most sweeping change in U.S. trade policy in the past 50 years—"reciprocity" legislation, designed to prod other countries into giving American goods and services the same open access to their markets that the U.S. provides foreign sellers.

There's no doubt the momentum here is gaining. Sen. John C. Danforth (R., Mo.), chairman of the Senate Finance Trade Subcommittee, has drafted legislation with an eye toward holding hearings on the bill sometime this spring. And a number of other lawmakers—both Democrats and Republicans—are considering similar bills.

The administration's position isn't clear yet. U.S. Trade Representative William Brock disclosed in December he was toying with the "reciprocity" notion, but so far he has stopped short of giving Congress a green light on new legislation. Mr. Brock says he supports the "concept," but isn't sure whether new laws are needed.

But it's still far from certain that "reciprocity" legislation will be enacted this year, or that if it does become law the language will mean very much. For all the flurry in Washington, there are serious obstacles proponents will have to overcome. At this point, the legislation could as easily die on the vine.

The whole notion of reciprocity would mark a major change, of course, in U.S. trade policy. In the past, the U.S. has sought to set an example by its open markets, in hopes of convincing other nations they should follow.

But this approach would say, look, that was fine for a previous day, but the world has grown up now. The U.S. will continue to maintain relatively open markets, but only for nations that "reciprocate" by accepting U.S. goods without restrictions. If a trading partner refused to respond, the administration would be required to take retaliatory measures.

The concept seems appealing—just right, in many lawmakers' eyes—for the current election year. Unemployment is rising sharply, and there's growing frustration over the nation's \$18 billion bilateral trade deficit with Japan.

But trade experts warn that, depending on the legislation, the move could blow apart key existing trade agreements—and possibly spark a round of retaliatory actions by major U.S. trading partners. Says Canadian Ambassador Allan E. Gouleb: "Sector by-sector reciprocity is simply not achievable in the real world."

Beyond that, the legislation faces some procedural hurdles. Proponents aren't even agreed on how to translate the idea into law. Should the U.S. require reciprocity on an industry-by-industry basis, or provide for more sweeping authority? If Tokyo restricts the sale of American soda ash, should the U.S. block entry of Japanese cars?

The measure also faces potential opposition in the House, where the Ways and Means Trade Subcommittee is expected to try to pigeonhole it.

Finally, it isn't yet clear whether any bill Congress ends up passing would be very meaningful. Mr. Danforth's proposal, for example, would require that the U.S. insist on "equivalent market opportunity" for its goods and services. If a trading partner balked, the administration would have a specified time to negotiate a settlement. The terms—and any sanctions—would be up to the President.

That, in itself, might not be too much more fearsome than what's now on the books. Existing legislation already gives the President sweeping authority to impose trade sanctions against countries that restrict U.S. exports. But that power has been used sparingly.

Nevertheless, trade lobbyists concede it will take skillful management to prevent the "reciprocity" drive from turning into a protectionist spree. Lawmakers already have introduced special-interest bills that would mandate sector-by-sector reciprocity for the steel and communications industries. "It could easily become a Pandora's box," one policy maker frets.

And Rep. Barber B. Conable (R., N.Y.), a longtime free-trader, notes that European refusal to reduce agricultural subsidies has cut into the traditional opposition of American farmers to protectionist legislation. Most strategists figure if the reciprocity bill gets past the Senate, the pressures in the House will be intense. It's the easiest way for a Congressman to show he's "doing something" about the unemployment problem, says Rep. Richard Gephardt (D., Mo.), a moderate. "I'd give it a 50-50 chance."

Perhaps the key, to many onlookers, will be whether the administration finally endorses the legislation. "If Reagan and Brock go along with it, the bill will sail through," a lobbyist predicts. "But they also could kill it if they wanted."

So far, senior officials are betting the administration ultimately won't publicly endorse any reciprocity legislation, but won't oppose the notion, either—continuing the uncertainty for U.S. trading partners while working behind the scenes to make sure things don't get out of hand. The threat of new legislation can be a valuable tool in trade negotiations.

There are other considerations: what shape the U.S. economy is in this spring and summer, how much pressure the lawmakers feel from their constituents, and what further steps Japan may take to open its markets to U.S. goods. Neither the administration nor Congress was impressed with Tokyo's latest trade package.

Meanwhile, the administration is warily trying to play both sides of the issue. Says the trade representative, Mr. Brock: "We don't want to climb onto the back of the tiger because it would be very difficult to get off."

—ART PINE

Philip H. Trezise

Let's Not Play the Bully in World Trade

The current Washington catchword in the field of foreign trade is "reciprocity." In its current and novel use, reciprocity seems to say that the United States will decide whether American goods are receiving treatment abroad equal to the treatment we give to foreign goods here. If not, then we will equalize matters by new restrictions on imports.

Alas, things are not so simple. Legislation to enforce a one-sided American view of reciprocity can open the door to some very unpleasant events. For the administration to encourage Congress along this line would be a reckless opening to protectionism.

Some of the steam behind the drive for reciprocity comes from the notion that we should be in balance in our merchandise trade account. Last year the United States trade deficit with the world was in the order of \$28 billion. The deficit with Japan alone probably will turn out to have been about \$16 billion.

Before reading too much into the meaning of these numbers for reciprocity, however, it is well to look more closely at our international transactions. When everything is counted—trade in goods, trade in services, returns on past foreign investments—lo, we will show a surplus of as much as \$12 billion (Japan, which

runs a deficit in service transactions, will have, coincidentally, considerably smaller surplus). In 1981, in other words, we did not pay out more to foreigners than we received. Our current international accounts were "favorable"—in a year when an overvalued dollar burdened all aspects of our foreign commerce.

When we focus narrowly on bilateral merchandise trade we see the large imbalance with Japan. But we also find an American surplus of some \$11 billion with the European Community. Should the community argue that it is getting non-reciprocal treatment? The community in turn registered a huge trade surplus with its small neighbors in the European Free Trade Association. With Austria and Switzerland alone it will have been \$12 billion. And Japan has a chronic trade deficit with Australia-New Zealand and, of course, with OPEC.

These surplus-deficit trade positions follow in large part from structural differences in national economies. Even under pure free trade, bilateral imbalances would be there, possibly greater than ever. They provide a poor excuse for scapegoating our trading partners.

The international trading system gave bilateral balancing an extended trial

"It is sheer hypocrisy to say trade barriers exist only in Japan and Europe. Everybody sins."

The writer is a senior fellow at the Brookings Institution.

Washington Post, Feb. 11, 1982 (op-ed)

during the 1930s. Through quotas, exchange controls and outright barter, not only Hitler's Germany but other countries, large and small, tried to avoid having deficits with anyone. That disastrous experience was the background for the post-World War II return to the multilateral idea, embodied in the General Agreement on Tariffs and Trade. It would be the saddest of ironies if the United States, the leader in the postwar move to free up trade from its prewar shackles, were now to lead the trading world back to bilateralism.

Country-by-country balancing seems, however, so outlandish a notion in the 1980s that one must suppose that the push for trade reciprocity will be in a narrower context, by product or by industrial sector. This could mean a slightly slower march back to the 1930s.

The fact is, of course, that trade takes place because competitive conditions differ from country to country. To seek to balance trade product by product or sector by sector would be no more rational than to aim at balance by country.

But, it may be replied, reciprocity need only mean balanced opportunities to trade. That indeed is a sensible objective. The GATT itself rests squarely on the principle of reciprocal bargains.

How to determine the balance-of-trade opportunity is the question. After more than 30 years of negotiated reductions in trade barriers, tariffs by product or sector are not equal country to country. This is not because of differential protectionism but because past bargaining very frequently involved an exchange of concessions on,

say, a chemical product for concessions on, for example, a machinery category. It is sheerest hypocrisy, however, to say that trade barriers, tariff and non-tariff, exist only in Japan and Europe, none in the United States. Everybody sins. What is bound to bring no end of trouble is for the United States to assert a unilateral right to judge the sinners and to assess the gravity of their offenses. "Trade war" is a term often

used loosely, but some form of commercial hostilities cannot fail to follow from such an assertion.

To take the point to a not implausible extreme, consider the European commercial airliner, the Airbus. By all accounts it is an excellent aircraft, competitive with comparable American planes. Neither tariffs nor other official trade barriers hamper its sales here, but American carriers have been reluctant to buy the Airbus, no doubt for good business reasons. Is it imaginable, however, that the Europeans will not choose to believe, and once we provide the example, to act on the belief that the Airbus has been the victim of a hidden American non-tariff barrier?

No one should quarrel with the administration's efforts to get other people to lower their trade barriers. We have rights bought and paid for under the GATT. We have the new GATT non-tariff barrier codes, hardly tested so far. We can, if GATT procedures seem excessively slow, discuss and negotiate with our trading partners, as we are doing with Japan. What does not make sense, even under the narrowest construction of American interest, is to lay claim to virtues no one possesses and to play the bully in pressing them on others.

A Global Trade War On the Way?

Japan blocks out foreign aluminum. Europe subsidizes food exports. The U.S. talks of fighting back. It's a free-for-all that's spreading.

Danger is mounting of a multibillion-dollar trade war that could cut U.S. sales abroad and boost prices Americans pay at home.

Country after country is putting up barriers against imports and subsidizing exports, American policymakers say. Europeans and Japanese, for their part, are complaining that Washington is guilty, too.

"Around the globe, calls for protectionism are louder and more shrill than they have been in 50 years," says U.S. Trade Representative Bill Brock.

Even in the U.S., the cries are getting louder. As domestic firms lose sales to foreign competitors, members of Congress, labor unions and businesses are demanding retaliation. "It makes no sense whatsoever for our nation to be operating under principles of free trade when many foreign countries are erecting barriers at every turn," says Representative James J. Florio (D-N.J.).

Increasingly in Congress and within the Reagan administration there is talk of "reciprocity"—putting up import barriers to countries that are closing their markets to the U.S.

Mounting trade imbalance. Behind all the tough talk is a huge U.S. trade gap with the rest of the world. Last year, the U.S. imported 39.7 billion dollars' more goods than it exported, and the deficit is expected to be even bigger in 1982.

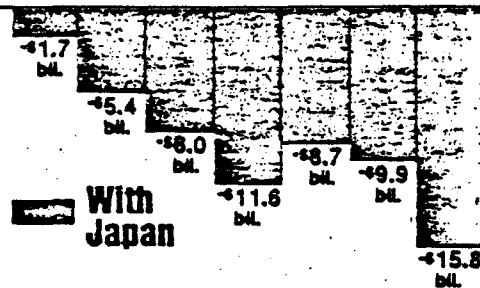
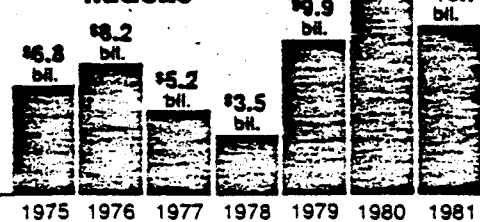
"The U.S. competitive position is being challenged as never before," says Secretary of Commerce Malcolm Baldrige. "The long-term effects on our national security and our international influence could be severe."

The impact of U.S. trade woes on American workers is showing up clearly. The Labor Department certified 28,000 persons as eligible for relief because their jobs were eliminated by sales of imports last year. The Census Bureau estimates 4.8 million U.S. jobs depend upon exports of goods and related services.

Right now, U.S. anger is directed mainly at Japan, which over the years has become a major supplier of autos,

Pluses and Minuses U.S. Balance of Merchandise Trade

With European Common Market Nations



USDA/ERS—Based on U.S. Dept. of Commerce

television sets, motorcycles, stereos, steel and hundreds of other products. Japan's sales to the U.S. this year are expected to exceed its purchases of American goods by more than 20 billion dollars.

"The Japanese are closing out U.S. imports, and they are mounting an export drive in certain areas where they flood the markets," complains Lionel Olmer, under secretary of commerce for international trade.

The Japanese do not mind selling products below cost, he contends, because they are more interested in full employment than profits. One example is Japan's rapid growth in production of computer-memory chips, to the point where it already has grabbed 70 percent of the U.S. market for one of the newest types of chips. "The price is driven down until one must look and wonder whether it represents fair trade," Olmer says.

U.S. laws require higher tariffs when another country injures American firms by "dumping" surplus products

in the U.S.—selling them below what is determined to be a fair value. But U.S. manufacturers complain that dumping suits are time-consuming and that they often have to depend on foreign data to determine the fair value.

Most threatened by Japanese producers is the American auto industry, which has watched as the Japanese share of the U.S. market has grown from 9 to 22 percent in six years. The U.S. persuaded the Japanese to limit their exports of Toyotas, Hondas, Datsuns and others to this country to 1.68 million cars in 1981, but recession-hit auto makers are talking about a lower quota this year. Ford Chairman Philip Caldwell went further in a Tokyo speech February 9 when he appealed to Japanese manufacturers to make more of their cars in the U.S., thus subjecting them to many of the higher operating costs that American firms must pay.

One reason that the Japanese cars are so popular here, claims Brock, is that they have a built-in cost advantage. Lower wages and taxes in Japan make the average car of the same quality \$1,800 cheaper to produce in Japan than in the U.S., he contends. The Japanese charge a 20 percent excise tax on all cars, but that tax is rebated to Japanese auto makers, he says.

Controlling supply. It is such favoritism to Japanese firms that particularly rankles Washington. The Japanese have driven up the cost of U.S. steak in their own country from \$4 to \$18 a pound by limiting beef imports. Other quotas limit sales of American oranges, milk and leather.

Under pressure of world recession, Japan also is putting up a new system of aluminum tariffs that will protect its industry from U.S. competition. The Japanese say the measure is justified because the industry is distressed.

U.S. officials have been even more critical about a variety of nontariff barriers that keep out imports of such U.S. goods and services as cigarettes, sporting goods, health-care products, alcohol, investments and insurance.

Reacting to complaints, the Japanese government announced on January 28 that it would eliminate or reduce 67 of

99 such barriers, but U.S. officials say that did not go far enough. Washington is considering tough measures, such as limiting Japanese imports or filing complaints under the General Agreement on Trade and Tariffs, a basic international trade pact.

American ire is turning also toward Europe. "There is grave concern about the growth of agriculture exports by European countries and how they are subsidized by their treasuries," says Agriculture Secretary John R. Block. Specifically, Block accuses the European Economic Community of flooding world markets with pasta, sugar, wheat and other products at low prices. U.S. officials are considering taking this case to the GATT ministers.

There is friction, too, over the 66.8 percent increase in European steel sales to this country in 1981. American steel firms have filed more than 100 antidumping complaints, urging that Europeans pay higher tariffs. The cases moved a big step forward February 18, when the U.S. International Trade Commission ruled that domestic firms probably were injured by dumping.

The complaints signaled the collapse of the "trigger-price mechanism," a 4-year-old system that all sides accepted as a way to assess penalties for steel sold below cost in this country. Steel analysts said the breakdown was a sign of frustration over recession in both the United States and Europe.

European labor unions are increasing pressure on governments to keep jobs from disappearing as the economy there worsens. U.S.-based multinational firms complain of moves now under way in the European Common Market that could force them to consult with unions before moving a plant and that could make company officers liable for actions that cost Europeans jobs.

The U.S. is taking its lumps from its neighbor Canada, too. U.S. oil companies complain that under the Trudeau government's "Canadianization" policy, they are forced to sell their holdings. Foreign companies are not allowed to extract oil on federal lands and the Canadian government heavily subsidizes exploration by domestic oil businesses. Other firms fret that a Canadian review board lets in only foreign investors judged to be of "significant benefit" in providing jobs and business to Canadian suppliers.

Cloth push. Another threat, in the view of U.S. officials, comes from the world's developing countries. They have quintupled exports to the U.S. in the last 10 years. The U.S. and Europe are threatening to tighten import quotas on textiles from South Korea, Taiwan and Hong Kong, among others.

With trade worries arising from all directions, members of Congress are moving fast to do something. One approach widely backed is a "reciprocity" measure introduced by Senator John C. Danforth (D-Mo.) and 11 others on February 10. The bill requires

the administration to measure the impact of foreign-trade barriers on the U.S. The President would then propose counteractions by the U.S. if the barriers were not removed.

The Reagan administration has not formally endorsed the idea of reciprocity but plans to use threats of such legislation to pressure other countries to drop their barriers.

Some trade experts fear that attempts at reciprocity may run counter to international treaties. Says William R. Cline, senior fellow at the Institute for International Economics in Washington: "When you start down the route of retaliating for things you think are unfair, you invite other countries to start retaliating against you because they may think something you are doing is unfair."

What's more, by keeping out lower-cost goods from abroad, the U.S. could add to inflation at home because American manufacturers would face less competition.

Dollar blamed. Foreign critics say that some of the U.S. trade woes are its own fault. For one thing, the 18 percent jump in the value of the American dollar in 1981 has made imports relatively cheap here and U.S. exports too expensive for foreigners.

The Japanese claim that the U.S. isn't aggressive enough in promoting exports. They charge that U.S. auto makers, for example, will sell them only cars with the steering wheel on the left side, even though the Japanese drive on the opposite side of the road from Americans. U.S. firms explain that demand in Japan is not strong enough for them to build cars differently.

Americans have their own protectionist barriers, too, say experts:

■ **Consumers for World Trade,** a Washington trade group, estimates that the public is paying 2.7 billion dollars a year in higher clothing costs because of the 29.3 percent average tariff on apparel imports.

■ **Under the Buy American Act,** U.S. firms are favored over foreigners in government contracts.

■ **The American Retail Federation** says U.S. stores ran out of wool sweaters last fall because of an embargo on sweaters from China.

Some officials hope that business recovery later this year will reduce protectionist pressures. Yet Brock warns: "The choices we make in 1982 are pivotal for the future of the world economic order.... We cannot blindly hope that a world economic upswing in the near future will allow these decisions to be avoided." □

U.S. Jobs That Depend Upon Trade

	Trade-Related Jobs	Percentage of Total Employment
Alabama	70,800	5.0%
Alaska	5,700	3.4%
Arizona	47,400	4.5%
Arkansas	38,000	4.4%
California	518,000	5.1%
Colorado	48,500	3.4%
Connecticut	107,900	7.2%
Delaware	14,200	5.5%
District of Columbia	4,800	1.6%
Florida	141,700	3.9%
Georgia	107,900	4.9%
Hawaii	6,800	1.8%
Idaho	14,300	3.7%
Illinois	285,800	5.8%
Indiana	143,800	6.3%
Iowa	58,600	4.2%
Kansas	44,400	4.0%
Kentucky	57,300	4.0%
Louisiana	52,600	3.4%
Maine	18,500	4.2%
Maryland	58,100	3.1%
Massachusetts	157,300	6.0%
Michigan	237,000	6.6%
Minnesota	85,100	4.2%
Mississippi	36,800	4.0%
Missouri	90,500	4.3%
Montana	5,900	1.7%
Nebraska	19,800	2.7%
Nevada	5,500	1.6%
New Hampshire	23,600	5.8%
New Jersey	178,900	5.5%
New Mexico	7,900	1.6%
New York	377,100	5.2%
North Carolina	154,600	6.1%
North Dakota	6,300	2.2%
Ohio	298,900	6.6%
Oklahoma	44,300	3.5%
Oregon	58,700	5.1%
Pennsylvania	285,500	5.9%
Rhode Island	30,600	7.5%
South Carolina	79,000	6.2%
South Dakota	6,400	2.0%
Tennessee	94,100	5.1%
Texas	267,200	4.4%
Utah	17,900	3.1%
Vermont	10,800	4.8%
Virginia	91,900	4.0%
Washington	114,100	6.7%
West Virginia	28,600	4.3%
Wisconsin	119,800	5.7%
Wyoming	2,800	1.3%
United States	4,778,900	5.0%

Note: Employment figures are for manufacturing exports only.

U.S. 1981—Basic data: U.S. Dept. of Commerce

By MICHAEL DOAN

U.S. Agrees to Back 'Market Access' Plan

By Hobart Rowen
Washington Post Staff Writer

The Reagan administration agreed yesterday for the first time to support new trade negotiating authority that includes as a goal assuring American companies "market access" equal to that given foreign companies in the U.S. market.

In outlining the policy to the Senate Finance subcommittee on trade, U.S. Trade Representative William E. Brock made clear that the administration would reject so-called "reciprocity" language that would require the United States to retaliate automatically against countries that establish difficult barriers to U.S. exports.

Instead, the administration will pursue market access "as a negotiating" objective, and always "within the framework of GATT"—the 87-nation General Agreement on Tariffs and Trade—Brock assured Sen. Bill Bradley (D-N.J.).

Brock said the administration will not endorse reciprocity language that

would mandate a retaliatory step by the president against either a specific country, or to force equality in a particular trade sector or product.

"Any bill that would mandate action on that sole ground would be a severe handicap. I would worry about creating [this] new kind of action," Brock said.

He later told reporters that the administration will seek "omnibus" language that would draw from the "positive approach" of scores of bills that have been introduced in Congress.

Subcommittee Chairman John C. Danforth (R-Mo.) promised Brock that every effort will be made to avoid "a Christmas tree bill"—legislation that incorporates a host of pet congressional projects, in this case to protect declining industries by one gimmick or another.

Many U.S. trading partners, as well as free-trade advocates here, have feared that reciprocity as broadly advocated by critics of

See TRADE, D12, Col. 2

U.S. Agrees to Support 'Market Access' Concept

TRADE, From D11

Japan on Capitol Hill would be a back-door route to outright protectionism, which not only would be counterproductive, but would violate the basic U.S. commitment to the GATT and to multilateral trade principles.

But Brock's announcement was at least a partial victory for advocates of reciprocity who had been insisting that Japan and some European nations had devised subtle nontariff barriers that are working unfairly against U.S. companies, and must be countered in some way.

Brock acknowledged that the goal of free trade isn't served "by ignoring attacks on it by others or by not pursuing increased market access for our goods, services and investment." But he reiterated that new legislation "must be absolutely consistent with current obligations under the GATT and other international agreements."

Brock also indicated that an administration-backed bill would include enforcement authority, similar to Section 301 of existing law relating to goods, to cover exports of services, "an area where we are experiencing expanded trade opportunities and growing barriers to them."

The trade representative also wants new authority for the president to modify the tariff structure governing high-technology items, which he said "would assist our efforts to obtain increased market access for U.S. goods." He didn't mention Japan—but part of the administration's current dialogue with

Japan relates to getting American high-tech items into what U.S. companies charge is a protected Japanese market.

Commerce Secretary Malcolm Baldrige, who reportedly had been more of a hawk than Brock on the reciprocity issue, yesterday supported Brock's position. But he pointed out that various nontariff barriers "have considerably weakened adherence to free-trade principles and made more sharply unfair the denial of market access on an equal basis."

Danforth, a strong backer of reciprocity legislation, expressed his gratification with the administration's position and said that, on the basis of what he had heard, compromise language could be worked out "in less than an hour."

Finance Committee Chairman Robert Dole said that, although priority must be given to the president's budget, an effort will be made now to work out a compromise between the various reciprocity bills and the administration's more restrained approach "within three to four weeks."

The thrust for new legislation comes largely from the swelling Japanese trade surpluses at a time of national recession here resulting in growing unemployment. Although Japan has taken a series of significant steps to liberalize trade barriers, U.S. officials are pressing Japan to do more. Sen. Lloyd Bentsen (D-Tex.) also listed a wide variety of complaints against the European Economic Community and Canada.

Compromise on Trade 'Reciprocity' Bill Is Sought by White House and Congress

By ART PINE

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Reagan administration and Congress agreed to seek a compromise on the controversial trade "reciprocity" legislation, with plans to push a new bill to the Senate floor by early summer.

After an opening day of hearings, John Danforth (R., Mo.), chairman of the Senate Trade subcommittee, and U.S. trade representative William Brock agreed yesterday to work jointly on new legislation that conforms to international trade rules.

It still isn't clear how much the earlier reciprocity bill will have to be changed. The measure introduced by Sen. Danforth basically would call on the U.S. to retaliate against countries that don't match U.S. trade openness.

However, Mr. Brock firmly indicted that the bill will have to be watered down substantially before the administration can accept it. He also asked the lawmakers to provide broad new presidential authority to negotiate rules for investment and trade in services.

Objected to Specifics

The compromise pledge came after Mr. Brock and Commerce Secretary Malcolm Baldrige told the panel that they would endorse trade reciprocity as a policy goal but that they objected to specifics in the earlier proposal.

Mr. Brock also objected to a proposal that would have required the administration to declare that specific trade practices of individual countries are unfair or unreasonable.

He said to do so would prejudice any case the U.S. might want to bring in the 37-country General Agreement on Tariffs and Trade, which sets international trade rules.

Both sides indicated yesterday that any compromise trade bill almost certainly would contain two elements. The president would have broad new authority to negotiate with other countries new rules governing international investments and trade in ser-

vices, which aren't covered under GATT. He also would have substantial tariff-cutting authority in order to negotiate liberalized restrictions on high-technology exports. Mr. Brock is seeking new world-wide trade liberalization talks for the 1980s.

Retaliation Issue

However, both Mr. Brock and Secretary Baldrige expressed strong skepticism about the provision calling for the U.S. to retaliate against a country that refuses to open its markets.

Mr. Baldrige cautioned that the concept "may prove difficult" to draft into law, while Mr. Brock warned that the provision might prompt other countries to enact new restrictions of their own. But the two officials agreed to discuss the issue.

The administration's middle-of-the-road position was devised during a Cabinet meeting Tuesday at which Mr. Brock and Mr. Baldrige warned that the White House would have to compromise or risk a protectionism spree in Congress.

Subcommittee members indicated by their comments yesterday that even the current, tough reciprocity bill easily would pass the full finance committee. Some 13 of the finance committee's 17 members have co-sponsored reciprocity legislation of some sort.

On a related issue, Mr. Brock indicated that the U.S. doesn't intend to follow the European Common Market in formally taking Japan to GATT on an array of charges of unfair trade practices. He said the administration would prefer to work out a bilateral solution first.

Mr. Brock also told the panel that the U.S. "has done all that we can do" in trying to persuade Japan to open its markets to more Western goods and services, and will sit back and wait for Tokyo to announce its long-promised relief measures.

Support for the reciprocity legislation within the subcommittee came from both Democrats and Republicans. Mr. Danforth defended the measure against charges that it is protectionist. He contended that "this beleaguered legislation has gotten a bad name."

Free-trade advocates have charged that the reciprocity legislation would reverse the historic free-trade policy stance of the U.S. and invite retaliation by America's major trading partners. Foreign governments also have criticized the reciprocity concept.

(editorial)

Trade the Brock way

Perhaps nothing is more important to lifting the world out of the economic downturn that has hurt so many nations in recent months than ensuring a continuous – and rising – level of international trade. For that reason the Reagan administration deserves credit for seeking legislation that would allow the President to negotiate liberalized new rules for trade in investment, services, and high-technology products. It also deserves plaudits for opposing protectionist measures now before Congress that would retaliate against nations that limit the import of American goods.

US trade representative Bill Brock was hardly exaggerating when he told lawmakers this week that for the US to set up reciprocal trade barriers against other nations "could undermine an already vulnerable multilateral trading system, trigger retaliation abroad, further deprive the United States of export markets and erode, if not eliminate, our role as the world leader in liberalizing international trade." Sad to say, over 250 bills now before Congress would establish reciprocal US trade barriers.

Opposing such bills does not mean the administration is taking a kid-gloves approach to nations that bar their markets to US goods and services. Far from it. While rejecting outright retaliation, the administration is seek-

ing authority to close off imports of certain goods from such nations until mutually beneficial trading rules are worked out that guarantee access to markets. It is also applying tough diplomatic pressures to nations with large trade imbalances, such as Japan, which posted an \$18 billion surplus in its trade with the US last year.

The whole tangled issue of trade in services and investment will be coming up at a ministerial conference in November of members of the General Agreement on Tariffs and Trade (GATT). Current international trading rules apply essentially to manufactured goods. Yet service trade represents a growing and significant element of world commerce. That is especially true for the US, where seven out of ten jobs are in service fields and service-related income from exports and earnings of American subsidiaries abroad reached \$128 billion in 1980. Many nations restrict service-related imports.

The administration must continue to press for new international rules governing service trade. Meantime, it is heartening that it is vigorously opposing reciprocity legislation that would retaliate against other nations and invite the risk of a world spree in protectionism. The goal must remain that of opening – not slamming shut – the doors to maximum possible international trade.

Busy Umpire

GATT Caseload Rises As International Trade Meets Serious Strains

New Use of the Organization

Carries Its Own Dangers:
'You Could Blow a Fuse'

Is the Old Consensus Ended?

By ART PINE

Staff Reporter of THE WALL STREET JOURNAL
GENEVA—For the past 35 years, the General Agreement on Tariffs and Trade has been the school-crossing guard of the international trading system.

Based in an imposing mansion on Lake Geneva, the 87-country compact has set the rules for the conduct of world trade. Under its aegis, the major non-Communist trading nations have steadily reduced import quotas and tariffs. When a trade dispute has arisen, GATT has often served as mediator. The larger industrial nations, however, have generally shunned its dispute-settling services. GATT has been left to deal primarily with minor rules infractions, usually involving smaller countries.

But today, with the world in a recession and protectionist pressures on the rise, major trading nations are turning to GATT to help solve explosive international conflicts that could easily overwhelm a full-blown police force. Western Europe, the U.S., Japan and Canada are embroiled in disputes that threaten to undermine GATT's basic free-trade principles.

Complaints Filed

Last month, in a major stepup in trade hostilities, the European Common Market filed a complaint in GATT against a broad array of Japanese trade practices—a move that could lead to stiff Common Market penalties against Japan. The U.S. has filed a series of petitions against European subsidies of agricultural exports, including wheat flour and pork. And Washington has begun GATT proceedings against Canada because of tough Canada-first restrictions in Ottawa's foreign-investment policy.

Other pressures threaten to strain the system further. European governments want to bend GATT's rules to shelter their ailing industries. The U.S. is flirting with "reciprocity" legislation that would permit limits on imports from any countries denying the same access to American goods and services that the U.S. gives theirs; some critics see this as a threat to GATT's foundations.

Under all these strains, many trade experts fear, GATT could collapse, unraveling the international trading system and heightening the possibility of a 1930s-style depression. "There's a danger that if you overload the circuit you can blow a fuse," frets Sir Roy Denman, the Common Market's top trade negotiator. Adds William E. Brock, the chief U.S. trade representative: "This is the most crucial year we have faced in international trade policy since the Second World War."

Trade Has Soared

In many ways, the health of the world trading system has become directly linked to the smooth functioning of GATT. Established in 1947 to prevent a buildup of barriers like those that strangled world trade before the Great Depression, the organization has overseen a sharp growth in global trade that all sides agree has benefited all countries. From 1948 to 1973, before the first oil-price shock, world trade swelled by an average of 7% a year, compared with an average of only 0.5% a year in the preceding 35 years. Not only has the agreement provided the framework for negotiations that wiped out most industrial nations' tariffs and import quotas, but also it has provided governments with a rationale for resisting protectionist pressures at home.

Besides reflecting today's heightened trade frictions, the flood of new complaint-filing marks a conscious attempt by the major trading nations to strengthen GATT's role as a dispute-settler. At a trade ministers' meeting in Florida in January, negotiators for the U.S., Western Europe, Japan and Canada agreed in principle to use GATT more often.

To GATT officials, the flood of new trade complaints is bittersweet news. Arthur Dunkel, the former Swiss trade negotiator who is the director general of GATT, welcomes its increased use for settling disputes as "a return by nations to the rule of order." Some analysts, however, fear that GATT lacks the power to enforce its rulings in cases involving big industrial nations.

If U.S. Loses

When GATT finds a defendant nation guilty of breaking the international trade rules, it can only authorize a complaining country to take specific retaliatory measures. The plaintiff must act on its own. Even then, the penalty might not hurt seriously and the guilty country might refuse to correct its trade practices.

William N. Walker, a lawyer who served as U.S. trade representative here during the Carter administration, asks: "What happens the first time the U.S. loses a big case in GATT? Do we agree to go along?" Michael Smith, the current U.S. representative here, adds: "GATT is largely a system of putting a country in the dock. But it's got to be willing to go there."

Other officials fear that the sharply increased caseload will prove too much for GATT's tiny, cumbersome mechanism for settling disputes. The main bottleneck is a shortage of the right kind of manpower. Under GATT procedures, complaints about a country's trade practices are referred to a panel of experts for an initial ruling; later they are reviewed by the GATT Council, which includes representatives of major trading nations. But GATT authorities over the years haven't recruited panelists from the major industrial countries, on the ground that they would be too likely to have an interest in the outcome.

The result has been a frantic search for "neutrals" from Finland, Sweden and other "acceptable" countries and—predictably—long delays while panels are put together. Says Harald Malmgren, a Washington-based trade consultant: "The reality is that there are only so many Finns and Swedes."

Mr. Dunkel has taken steps to ease that problem, by starting to recruit panelists from larger countries as well. For the first time, GATT recently named a Japanese trade official to help settle a dispute between the U.S. and the Common Market over European subsidies to wheat-flour exporters. But the change is coming slowly.

But the difficulty goes beyond that, to the breadth of the current complaints: they are far more challenging than the largely technical issues that dominated the GATT docket in the past. The U.S. complaint about Canada's foreign-investment policies, for example, marks the first time that GATT has been called to deal with the trade aspects of investment.

Even when facing narrow disputes, GATT hasn't exactly been a tough cop. The last time the compact formally authorized a full-fledged penalty against a violator was in November 1952, in a relatively minor case involving U.S. quotas on Dutch dairy exports. With GATT's permission, the Netherlands retaliated by restricting its imports of American wheat flour, but that punishment was so mild that the U.S. didn't even flinch.

In fact, the agreement has gotten the reputation as a place where big countries can sweep disputes under the rug. The U.S., for example, successfully parried a West European complaint about the Domestic International Sales Corporation tax subsidy for exports that Congress passed in 1971—first by delaying any GATT consideration of the issue and then by essentially ignoring a GATT panel's guilty finding until Washington could settle the matter bilaterally with the Europeans. The process dragged on for a full decade.

GATT also has had its share of policy failures. Despite the compact's promise to avoid trade restrictions, the major industrial countries, including the U.S., have operated an international textile cartel through a Multi-Fiber Arrangement that authorizes import quotas to protect domestic industries. "I think we'd just like to forget about that," a GATT official says.

The Price of Success

Yet the problems GATT now faces are testimony to its own success, says University of Michigan Prof. John Jackson, an authority on GATT. Successive negotiations have so reduced import quotas and tariffs that countries increasingly have turned to,

so-called non-tariff barriers, such as production subsidies and restrictive quality standards and inspection requirements.

These barriers are more difficult to spot—and to police—than import quotas or tariffs, partly because they are often linked to broader economic practices, such as the complex Japanese distribution system that so frustrates would-be U.S. exporters with its layers of wholesalers who favor Japanese goods.

Any GATT ruling on non-tariff barriers would encounter sharp differences in the way the major trading powers approach their GATT obligations. Despite occasional straying, the U.S., by and large, has regarded GATT's rules and decisions as firm and legally binding. But Europeans have tended to consider them starting points for bilateral negotiations aimed at working out a compromise.

Japan is somewhere in between: Tokyo strongly supports GATT as a framework for the world trading system but shuns the compact as a dispute-settling mechanism—because it is too public for the Japanese taste and limits Tokyo's opportunity to engineer bilateral agreements. Says Japanese trade negotiator Torio Tsutsumi: "We should consider GATT a last resort and negotiate bilaterally first."

Threat in Washington

To many observers, perhaps the biggest threat to GATT comes from the U.S. flirtation with the "reciprocity" legislation, which is designed to prod other countries, particularly Japan, to open their markets to more U.S. goods and services. Critics say the legislation now being considered would undermine GATT's principles by becoming a prescription for retaliation.

They view the U.S. reciprocity plan as authorizing direct, overt reprisal against certain trading partners. By contrast, they say, Japan is simply continuing long-established practices that apply evenly to all trading partners and aren't meant as retaliation. "If tomorrow that bill wins in Congress," one GATT official warns, "it's the end of the international trading system."

Considering such pressures, it may not be surprising that there have been calls for revamping GATT's structure. "What's wrong with GATT is that the (free-trade) consensus underlying the original compact no longer exists," says Hugh Corbet, the director of the London-based Trade Policy Research Centre. Mr. Corbet suggests establishing a high-level international "wise men's group" to recommend possible changes.

A critical test for GATT may come in November, when top trade officials from all 87 member countries are scheduled to gather here for a ministerial-level review that U.S. authorities hope could pave the way for eventual expansion of GATT and further lowering of trade barriers in coming years.

Mr. Corbet, for one, is optimistic that the November meeting "will come out with something." He reasons that "as the annual economic summit meetings show every time," top-level officials simply don't like to fail. Despite the current strains, he adds, "I don't think GATT will break apart because governments, when you confront them, agree you can't break it up."

(Excerpt from) U.S. International Economic Policy in the 1980's, Committee Print, Joint Economic Committee, February 11, 1982

U.S. TRADE POLICY IN THE 1980's

By Raymond Ahearn *

I. SUMMARY

The steady reduction in tariffs and other trade barriers contributed to the strong expansion of world trade and to rapid economic growth and higher real incomes throughout the world since the end of World War II. In the aftermath of the 1973 oil price increase, fears were expressed that these gains would be threatened by a retreat to protectionism. However, this fear has not materialized. Nevertheless, world trade in textiles and apparel and steel is quite restrictive and pose serious obstacles to continued trade expansion. New threats of trade restrictions loom in the background.

The Tokyo Round of multilateral trade negotiations (MTN), which were concluded in 1979 after more than five years of laborious negotiations, reduced developed country tariffs by one-third. This will bring average tariffs down to very low levels (3 to 4 percent) by 1987. Thus, tariffs in general are no longer the primary trade barrier. Nontariff barriers, which the Tokyo Round addressed comprehensively for the first time ever, remain the most important trade restrictions. These barriers will be influenced increasingly by the new trading rules established in the Tokyo Round.

The new rules or codes of conduct are more extensive and should provide the basis for further trade expansion, but they also create a more complex and less unified trading system. Countries as well as sectors are treated differently.

Whether the new codes will be able to provide the discipline and predictability necessary to maintain a liberal world trading system will depend on the interaction of various legal-institutional, economic, and political factors. The effects of the spread of conditional most-favored-nation (MFN) treatment which legitimizes discriminatory policies among nations will shape the trading system in important ways. Economic factors, particularly slow growth, erode support for liberal trade policies. The more even distribution of world military and commercial power today also has important consequences for the world trading system.

Enforcement of the new trading rules remains critical if a greater degree of certainty and fairness is to govern international trade. If all countries come to assume international trade obligations commensurate

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with their economic position, the world trade system can continue to contribute importantly to world prosperity and peace.

Against this background U.S. trade policy confronts a number of important domestic and international issues in the 1980's. Policies adopted will influence the U.S. position in domestic and foreign markets and the world trading system.

The Reagan Administration's economic recovery plan attempts to improve U.S. competitiveness through restoration of a healthy, dynamic economy. High interest rates, an unintended consequence of current economic policy, however, have contributed to a strengthening of the value of the dollar to a level that will reduce the competitiveness of U.S. exports during 1981 and beyond.

The Reagan Administration has also announced its intention to rely substantially on market forces to determine its response to import adjustment problems. Import restrictions will be rarely used.

The removal or modification of export disincentives will remain a continuing concern of both the Reagan Administration and Congress. Attempts will also be made to provide more positive support to U.S. exporters through provision of tax incentives, export financing, and informational and marketing programs.

Internationally, a major task involves the implementation of the MTN agreements. A perception on the part of some observers of limited and slow progress will be examined by Congressional trade committees in the 97th Congress. Efforts to negotiate a safeguards code, which would delineate international rules under which countries can impose restrictions to protect domestic industries, will continue. The United States will also attempt to negotiate a reduction of barriers to international trade in services and foreign direct investment, two areas of large and increasing importance to the U.S. economic position. Decisions providing for differential treatment of developing countries will become more numerous and important in the coming years. Prospects for increased trade with non-market countries will continue to be conditioned by political considerations under the Reagan Administration.

II. CHALLENGES TO THE WORLD TRADING SYSTEM

The postwar world trading system developed on the basis of a common desire to reduce trade barriers and to avoid a return to the kinds of restrictions and discriminatory trading relationships that characterized the 1920's and 1930's. The establishment of the General Agreement on Tariffs and Trade (GATT) in 1947 provided an institutional framework and a set of rules and principles for multi-lateral efforts to liberalize trade. The unconditional most-favored-nation (MFN) principle, by which one country promises to extend to other countries the most favorable concessions it negotiates with any third country, served the postwar trading systems well by facilitating the reduction of high tariff levels.

The steady postwar success in reducing tariffs helped to expand world trade which, in turn, contributed to increased economic growth. Between 1953 and 1960, when tariffs and other import restrictions were reduced markedly, world export volume increased by an average annual rate of 7.6 percent while world production increased by 6.2 percent. The rate of growth of trade exceeded the rate of growth of

production by an even wider margin (7 percent to 3.6 percent) for developed countries alone.

The relationship between the growth of trade and the growth of output continued between 1960 and 1973. World exports during this period grew by 8.5 percent and world output grew by 6 percent. Again the rate of growth of trade exceeded the rate of economic growth by an even wider margin (8.8 percent to 4.8 percent) for developed countries. During this period, the Dillon and Kennedy rounds of trade negotiations were completed. The Kennedy Round reduced tariffs on industrial products by an average of one-third. At the same time, the growth of world trade was supported by the elimination of tariffs within the European Community (EC). These postwar results created a widely held view that a liberal world trading system can contribute substantially to important societal goals; namely rapid economic growth and higher real incomes and wages.

From 1973 to 1978, in the aftermath of the OPEC oil price increases, world trade increased only a little faster than world production and at a slower rate (4 percent trade growth and 3.5 percent economic growth). During this period experts frequently cautioned that the world trading system was on a dangerous course. Fears that the open world trading system would break down in the face of increased pressures for protectionism were highlighted by several influential publications. The GATT secretariat in 1977 estimated that 3 to 5 percent of world trade or some \$30 to \$50 billion was being adversely affected by import restrictions introduced by developed countries between 1973-77. A study by the International Monetary Fund in 1978 also found an increase in protectionist actions.¹

More recent studies, however, have indicated that the protectionist actions taken in the past seven years have not posed a great threat to the expansion of world trade.² One trade authority even argues that the trend toward protectionism has not continued and in some cases has been reversed.³ A review of the protectionist actions taken by the major industrial countries (the United States, the European Community and Japan) that account for over 55 percent of world trade follows.

Protectionist Actions of Major Industrial Countries

The primary protectionist actions which challenge a liberal trade system are "safeguards" actions and "sector agreements." Both are measures designed to limit fair and competitive imports directly. Safeguard actions are trade restrictions such as import quotas or higher tariffs imposed to protect industries that are suddenly threatened by a rapid growth of imports. They are supposed to be temporary and are permitted under Article XIX of the GATT.

In recent years, Article XIX (which allows the exporting country to claim compensation and allows retaliation if compensation is not provided) has not been much used. Instead countries have achieved restrictions through orderly marketing agreements (OMAs) or voluntary restraint agreements (VRAs). In addition to being outside the GATT's rules, these measures discriminate against particular countries.

¹ International Monetary Fund, Trade and Payments Division, *The Rise of Protectionism*, Washington, D.C. 1978.

² Linda M. Gard and James R. Hodel, "Safeguard Protection of Industry in Developed Countries: Assessment of the Implications for Developing Countries," Preliminary report issued October 1979 by World Bank for discussion purposes.

³ Rida Hudeib, "The Tokyo Round and Developing Countries," *Journal of World Trade Law*, March/April 1980.

tries, usually the most efficient producers. Other types of agreements also avoid the discipline of the marketplace through quotas and other restrictive practices. Textiles and apparel is the sector most affected, but steel, agricultural products and raw materials are also affected to varying degrees.

SAFEGUARD ACTIONS

Both the United States and the EC have made selective and moderate use of safeguard actions, while Japan has headed in the direction of increased trade liberalization.⁴ United States safeguard actions to impose quantitative restrictions or higher tariffs are authorized by section 201 of the Trade Act of 1974. From April 1975 through November 1980, 44 investigations were undertaken by the International Trade Commission (ITC). The Commission found injury and recommended to the President increased trade restrictions in 23 of the cases. The highly publicized billion dollar import relief case for the U.S. auto industry is the most recent instance in which the Commission did not find injury. The President, however, decides whether to grant import relief, and did so in only 9 of the 23 cases sent to him. In the nine cases the President has provided import relief, three remedies have entailed an orderly marketing arrangement, one case a global quota, and the five remaining cases, increased tariffs. Tariff remedies, which are neither as restrictive and inefficient as quotas and are not discriminatory, have been the favored remedy in most recent cases.

From 1973 to February 1980, the EC has taken 18 safeguard actions. In contrast to the U.S. policy of relying on increased tariffs or OMA's as a remedy, the EC has relied primarily on quantitative restrictions. The protection has been discriminatory, with Japan and other East Asian countries the object of most of the restrictions.⁵

Voluntary and most often non-publicized restrictive agreements are more prevalent in the EC than in the United States. For example, Italy imposes strict quotas on Japan auto imports, the U.K. tries to keep auto imports below 11 percent of its market, and France too limits Japanese auto imports.⁶ It is also reported that South Korean exports are subject to European country restraint agreements on toys, umbrellas, radios and footwear.⁷ Given the secrecy of most of these agreements, it is most difficult to assess their magnitude.

Japan is a protectionist enigma compared to the United States and the EC. Judged solely on the basis of overt government policies to restrict imports (tariffs, quantitative restrictions, and sector arrangements) most analysts would agree that Japan has been moving away from protectionist policies more consistently than other industrialized countries in recent years. However, if a more expansive (and some would argue unfair) definition of nontariff barriers relating to general features of Japanese society and culture is utilized, then Japan's market can be characterized as less open than the U.S. or EC markets.⁸

On paper, Japan is the only industrialized country that has consistently taken trade actions toward greater liberalization since 1974. In

⁴ Gard and Hodel, op. cit., p. 16.

⁵ Gard and Hodel, op. cit., p. 17.

⁶ *U.S. Business Week*, Oct. 27, 1980, p. 84-85.

⁷ U.S. Bureau of Trade, *Annual Report on Effects of Restrictions on United States Imports: Textile Trade*, Washington, D.C., June 1980, p. 17.

⁸ Eugene J. Kuchler, United States Japan Trade Council, *Japan's Tariff and Nontariff Barriers: the perception gap*, 1979.

the tariff area, as a result of the Tokyo Round, Japan's trade weighted tariff will be around 3 percent ad valorem by 1987, a level slightly lower than that of the United States or the EC. In terms of quantitative restrictions, Japan has since the mid-1960s progressively liberalized its quotas on 27 mostly agricultural products. Product standards and government procurement policies are the remaining traditional non-tariff areas that can be liberalized substantially. Both are subject to international agreements and ongoing negotiations.⁸

Assertions that loosely defined barriers associated with Japanese culture and institutions act as significant trade barriers are more difficult to assess. Administrative guidance and the distribution system are the two most frequently cited nontariff barriers. Administrative guidance generally means some kind of bureaucratic pressure to get Japanese importers to limit purchases of particular commodities or to switch from foreign to domestic sources. Documentation of administrative guidance affecting actual import decisions is difficult to obtain.

Japan's internal distribution system, primarily for consumer products, confronts a foreign supplier with many layers of small and specialized retail establishments. Adapting to the system entails considerable effort, money and perseverance. Although it is a complicated distribution system in many ways favoring obligations and loyalties to domestic suppliers, and presents serious commercial obstacles, it probably does not warrant being called a nontariff barrier because it is not governmentally determined. It is expected that the distribution system will become less of a barrier over time as economic conditions in Japan change, bringing changes in a system which is inherently costly and inefficient.⁹

SECTOR AGREEMENTS

Sector arrangements limiting competition in textiles and apparel and steel appear to be more significant trade barriers in both the United States and the EC than safeguard actions. International trade in textiles and apparel is regulated by the GATT-sanctioned Multifiber Arrangement (MFA). The MFA provides a general framework for the negotiation of bilateral quotas between importing and exporting countries. The primary provision of the MFA limits import growth to 6 percent on a yearly basis. Both the United States and EC have extensive agreements with developing countries covering a large number of product categories. Additional protection is provided by relatively high tariffs.

Differing views are heard on the importance of the MFA. It has been described by GATT researchers as an "important precedent in leading to the breakdown of the world commercial system."¹⁰ Supporters maintain that it provides order and stability to an area that would become chaotic without managed trade. That the MFA has been successful in limiting imports is indicated by two facts. Between 1971 and 1979, when other imports were rising, the quantity of textile imports in the United States declined by 8 percent while the quantity of apparel imports grew by only 2.7 percent.¹¹ These figures, of course,

⁸ See the chapter on "United States-Japan Trade Relations" by Dick Nanto in this volume.

⁹ Kaplan, op. cit., p. 18.

¹⁰ General Agreement on Tariffs and Trade. Trade Liberalization, Protectionism and Interdependence (Geneva, 1977), p. 46.

¹¹ Source: Commerce Department, Office of Textile and Apparel.

mask significant changes in many individual product categories. In addition, foreign imports represent a smaller share of domestic consumption than do imports of many other import-sensitive industries. In 1979, for example, imports of all textile products including apparel constituted 10.5 percent of the market while apparel alone made up about 15 percent of the market.¹² This compares with a 50 percent foreign market share in footwear, 28 percent share in automobiles and 17 percent share in steel.

Textile-exporting developing countries have been dissatisfied with the protocol of the MFA renegotiated in 1977. The protocol introduced the concept of "jointly agreed reasonable departures," and has resulted in growth rates much lower than the "at least 6 percent" contained in the original MFA. Despite developing country dissatisfaction, the MFA was extended for 4 years and 7 months at the end of 1981. A new protocol, which provides for MFA departures against major developing country suppliers will be tested during 1982.

The EC, whose textile industry presently is suffering substantial financial and employment losses, has imposed even tighter restrictions on developing country exports than the United States. Not only is the European industry suffering, but press reports indicate that it is pressuring the EC to apply tighter restrictions along the lines of the MFA against U.S. textile exports which soared in 1980. Already the EC has imposed antidumping duties on U.S. acrylic and polyester yarns and the United States has threatened to increase tariffs on EC woolen goods and artificial yarns.¹³ Unless durable solutions are found, taking into account both the aspirations of developing countries that possess a comparative advantage in many textile and apparel products and the problems of adjustment in developed countries, world trade in textiles could become much more restrictive.

Steel is a second sector in which pressures for protection have occurred over the past decade. From 1969 to 1974 voluntary restraint agreements were in effect between European and Japanese producers and the United States. In 1976 the United States negotiated an orderly marketing agreement with Japan covering specialty steel items and imposed unilateral quotas on other specialty steel suppliers. In December 1977 the United States introduced a system of trigger prices in response to charges by the domestic industry that foreign producers were selling at less than fair value in the United States. Although the trigger price mechanism, pegged to Japan's costs of production, was intended to be a monitoring device for the more efficient administration of the U.S. antidumping statute, many critics argued that its effect was to set minimum price levels for both imported and domestic steel.

On March 18, 1980, U.S. Steel brought an antidumping suit against 16 steelmakers in seven countries of the European Community. The Carter Administration maintained that it could not administer the trigger price mechanism simultaneously with U.S. Steel's wholesale dumping claim and proceeded to suspend the trigger price mechanism.¹⁴

After months of high-level negotiations with U.S. Steel and with representatives of the EC, the Administration announced on September 30, 1980 a package of assistance to the steel industry which in-

¹² Textile digests, various issues.

¹³ Business Week, Nov. 17, 1980, p. 68.

¹⁴ Friedman, David, "Steel and the European Community: The Protection Issue," Congress and Research Service Issue Brief No. 80003.

cludes a reimposition of the trigger price mechanism at a 12 percent higher level. The 12 percent increase is said to translate into an average increase of about \$18 a ton for both imported and domestic steel, costing consumers an extra \$1 billion a year.¹⁰ An additional feature of the new program covers import surges. Surges in the volume of steel imported into the United States that give foreign steelmakers more than 13.7 percent of a particular market at any time the domestic industry is operating below 87 percent of capacity will be scrutinized immediately by the Department of Commerce for possible dumping violations. If the volume of imports exceeds 15.2 percent of domestic consumption when capacity utilization is less than 87 percent, a more thorough investigation is required. Although the surge feature is only intended to involve strict monitoring followed by application of the antidumping duty laws, congressional critics have expressed fears that it might act as an effective quantitative limitation for which there is no legislative mandate.¹¹

The EC has also extensively regulated international trade in steel. Beginning in 1974, the EC negotiated bilateral restraint agreements with most foreign suppliers. The quotas were renegotiated as recently as 1979 with 13 of the 15 suppliers including Japan, Austria, Finland, Norway, Spain and Eastern Bloc countries, South Africa and Brazil were the two suppliers excluded completely from the European market, allegedly for political reasons.¹² The EC has also instituted a system of minimum prices for both imported steel and domestically produced products, and has imposed production cutbacks.

An International Steel Committee has been established within the Organization for Economic Cooperation and Development (OECD). Its task is to monitor trends in worldwide production, investment and trade. Critics argue that it may serve as a vehicle to divide up world markets and further regulate international trade.¹³ How governments deal with the difficult problems of falling demand, excess capacity, and a potential loss of jobs on the one hand and the economic cost of restricted trade on the other hand, will continue to be a critical challenge in the 1980's.

ASSESSING PROTECTIONIST ACTIONS

Based on an evaluation of official government actions of major developed countries to limit directly foreign competition, no great threat to trade expansion is evidenced. The United States and EC have made selective and moderate use of safeguard actions while Japan has moved steadily in the direction of increased trade liberalization.¹⁴ Official actions in the textiles and apparel sector, however, pose serious challenges to continued trade expansion. International trade in steel also appears to be subject to increased regulation. Concern can also be expressed regarding the growth of trade friction and problems among the largest trading powers—the United States, the EC, and Japan—over trade in steel, textiles, and autos. To prevent these and other trade issues from escalating into major international disputes, the three

¹⁰ Congressional Record, Oct. 2, 1980, B4770. Statement of Congressman Bill French.

¹¹ *Ibid.*

¹² Source: Phone conversation with steel industry analyst at the International Trade Commission, October 29, 1980.

¹³ Federal Trade Commission, *op. cit.*, p. 198.

¹⁴ Gard and Heldel, *op. cit.*, p. 16.

trading powers agreed at the Ottawa Summit to establish an early-warning consultative arrangement.¹⁵

It should be emphasized that this review of protectionist actions does not include countervailing duty and antidumping actions. Although they are legal reactions to unfair trade practices, they are sometimes utilized in a protectionist manner. The evaluation also does not include the difficult area of agricultural trade where domestic policies pose serious trade barriers. Nor does the review assess the recent negotiations to regulate trade in such commodities as sugar, tin, copper, coffee, and cotton, among others. A more extensive review would also incorporate trends in government policies to help domestic producers at the expense of foreign producers. These aids (e.g., subsidies, government procurement policies, and product standards) will increasingly be influenced by the new trading rules established in the Tokyo Round of trade negotiations. Although it will be several years before a serious evaluation of the codes developed to deal with government created non-tariff barriers (NTBs) can be made, the codes on paper establish the foundation of a new world trading order.

Post-Tokyo Round World Trading Rules

The Tokyo Round codes revise GATT rules in some areas and introduce new trading rules in others. Altogether seven NTB codes were negotiated—Subsidies-countervailing, Antidumping Standards, Government Procurement, Customs Valuation, Import Licensing and Civil Aircraft. These codes, together with a Framework Agreement legitimizing special and differential treatment for developing countries and two agricultural arrangements on meat and dairy products, constitute a new set of world trading rules.

These codes provide the basis for a very different system of world trade. Unlike the postwar system which utilized the unconditional MFN principle to pass on tariff reductions to nonparticipating countries on a non-discriminatory basis, the new trading agreements sanction discrimination through inclusion of conditional MFN provisions in each of the codes. This simply means that the benefits of each code are extended only to those countries that sign the codes and agree to undertake the prescribed obligations.

Conditional MFN or discrimination was a necessary condition in negotiating the codes. Without conditional MFN, further trade liberalization would not have been possible. Sovereign nations willing to accept international discipline today demand that it apply reciprocally. In the earlier era when the benefits of tariff reductions were passed on to nonparticipants, competition for world markets was not as intense and countries receiving a "free ride" were not serious competitors. And, of course, reductions of tariffs benefitted the importing as well as the exporting country.

The codes also vary in the degree to which they conform with the original GATT view that a liberal trade system involves rules to minimize government involvement in the marketplace. Some of the codes, particularly the agricultural arrangements, the dispute-settlement procedures of each of the codes, and portions of the subsidies-countervailing code, increase the role of government in managing or

¹⁵ Farnsworth, Clyde H. *8-Way Forums Set As Way to Defuse Tensions in Trade*. New York Times, August 12, 1981, p. 1.

directing international trade. The majority of the codes (Government Procurement, Standards, Customs Valuation, and Civil Aircraft), however, move in the direction of limiting governmental interference in the marketplace. On balance though, if properly implemented, the codes should provide a strong foundation for further expansion of trade.²¹

To date most major developed countries have signed all or some of the codes, but very few developing countries have signed any of the codes. Although efforts are being made to obtain more developing country participation in the new trading system, the failure to date undermines hopes of applying the agreements on a worldwide basis and of maintaining a unified trading system.²²

According to spokesmen for the developing countries, a primary reason for not participating in the new codes is the insufficient preferential treatment accorded developing countries.²³ The codes do, however, provide various special benefits. For example, in the subsidies and countervailing duty code, developing countries are provided the right to grant export subsidies and excluded from actions against them if their subsidies adversely affect the exports of other signatories in third country markets. In return, developing countries are subject to vague obligations. Under the Government Procurement Code, developing countries can compete for developed country purchases of goods while being subject to less stringent obligations. Furthermore, the poorest developing countries may benefit from the code without incurring any obligations whatsoever. A legal basis for providing preferential treatment for developing countries is codified in the Framework Agreement along with a "graduation" clause which calls for developing countries to accept greater obligations as their economic development warrants.

The inevitable effect of the new codes is the creation of a much more complex and less unified world trading system. Countries and sectors are treated differently. All of this should not be too surprising. As GATT membership has grown fourfold in over thirty years, world trade has increasingly been transacted among different countries with different philosophies, different economic structures and at different stages of economic development. Whether the new codes will be able to provide the discipline and predictability necessary to maintain a liberal world trading system will depend on the interaction of various legal-institutional, economic, and political factors influencing government actions.

Factors Conditioning the World Trading System

LEGAL-INSTITUTIONAL

An important legal-institutional factor affecting the liberal trade environment is the spread of the conditional MFN principle to a much larger volume of world trade. Conditional MFN means that only code signatories will obtain the benefits of the new trading rules. Critics

²¹ John J. Jackson, "MFN and the Legal Institutions of International Trade," U.S. Commerce, Senate Finance Committee, June 1970, p. 5.

²² In addition to the problem of developing country participation, great uncertainty exists concerning the extent to which communist countries, including China, will be integrated into the world trading system.

²³ Thomas R. Graham, "Revolution in Trade Politics," Foreign Policy, Summer 1970, p. 68.

believe that this development may open the way for selective bilateral measures such as quotas applied against the exports of a single supplier.²⁴ More optimistic observers emphasize that today's trade barriers necessitate a form of conditional MFN if trade liberalization is to proceed.

The more widespread use of conditional MFN is bound to create trade disputes at least in the short run. The United States and India already have had differences over the subsidies-countervailing duty code. The Carter Administration's September 1980 decision to deny India the right to an injury test under the U.S. countervailing duty code has caused Indian Prime Minister Indira Gandhi to remark that "rich men's clubs take care of their own members and we are told to fend for ourselves." India, which is a member of GATT and a signatory to the subsidies-countervailing code, challenged the U.S. decision on the basis of GATT's Article I which requires that unconditional MFN treatment be accorded to all signatories. The Carter Administration's decision was based on India's unwillingness to commit itself to a phase-out of its export subsidies over a period of time. The fact that the United States did not require a similar commitment from Pakistan and Uruguay no doubt played a role in India's reaction. Hence, the seeds of friction are planted when countries accord differential treatment from one to the next.

Supporters of a growing system of conditional MFN in which concessions are extended only in return for concessions received believe that it will put pressure on governments to follow open trading policies and to participate in the new trading system. As indicated, participation of developing countries has been disappointing but the early 1980's could simply represent a preliminary phase. In time the gains from participation may become more self-evident to developing countries and participation will increase. In the interim, the various codes covering diverse subject matters will have varied and uneven membership.

Whether disputes such as the U.S.-Indian one can be settled on the basis of the merits of the case through the GATT dispute-settlement process will be critical to increasing confidence and adherence in the new trading rules. Many developing countries remain cynical and discouraged about the fairness and benefits of the world trading system. If early disputes appear to be settled on the basis of the relative size of the countries involved or the strength of their domestic political interests, confidence in the system will be undermined and increased participation of developing countries will be less likely.²⁵

ECONOMIC FACTORS

Economic considerations also both challenge and support an open world trading system. Difficult economic times tend to erode support for free trade policies and create an uncertain environment for international trade. During periods of high inflation and unemployment, rising energy costs and sluggish investment, imports are often singled out as having a direct impact of domestic producers and workers. What

²⁴ A more drastic view sees conditional MFN enshrined to the tariff area where only the strongest and largest would survive. See Gerard and Victoria Curzon, "The Multi-Tier GATT System," in *Illeronymi*, Otto, ed., *The New Economic Nationalism*, Macmillan Press, 1980.

²⁵ Graham, op. cit., p. 68.

needs to be remembered, however, is that international trade is not necessarily the cause of these economic problems. On the contrary, increased trade can contribute importantly to fighting inflation through greater competition and acts as an important catalyst in the expansion of the world economy. In particular, international trade is not the primary cause of unemployment in the U.S. either. Shifts in consumer demand and changes in productivity account for a more substantial portion of job losses than does trade.²⁷ For example, it is estimated that a hypothetical increase in U.S. imports totaling \$20 billion in 1976 would have led to approximately 720,000 job losses. This is less than 10 percent of the estimated 10 million workers laid off for all reasons during the course of 1976.²⁸

Although imports play only a minor role in determining overall employment in the U.S. domestic economy, they can present difficult political and human problems. While the benefits of trade expansion are diffused over the entire U.S. economy, its costs are borne by firms and workers in specific industries most often producing manufactured products such as shoes, color television sets, autos, and apparel. Workers in these industries obviously do not view imports from the perspective of the whole economy, but are concerned about the fate of their own jobs, health benefits, pensions and communities. Given the increased capability of many developing countries to produce and sell these items more cheaply, the problem is not going to disappear.

As long as it expands, the U.S. economy can absorb many of the affected workers but not without costs to individuals and communities. In addition, most governments in developed countries provide some kind of special assistance to workers and firms to adjust to these import pressures. Under this approach, retraining of the unemployed and facilitating the transfer of resources to more productive areas of the economy are priority concerns. The idea that U.S. workers adversely affected by imports should receive preferential treatment compared to those affected by the ups and downs of the national economy is being questioned by the Reagan Administration.

Trade restrictions can be self-defeating in the long run.²⁹ Restrictions on imports reduce other countries' exports and hence the foreign exchange available to them for importing. Reduced imports mean that someone's exports eventually will decline. Arguably, in the long run jobs can be "saved" in import-competing industries only at the expense of jobs "lost" in export-competing industries.

POLITICAL FACTORS

Some analysts believe that there are even more fundamental challenges to liberal trade policies than the spread of conditional MFN and the adjustment problems associated with increased levels of imports. This view is that world trade operates most successfully when

²⁷ See, for example, Anne O. Krueger, "Protectionist Pressure Imports and Employment in the United States," NBER Working Paper No. 461, March 1980.

²⁸ Walter S. Salant, "The Effects of Imports on Domestic Employment: A Clarification of Concepts," Special Report of the National Commission for Manpower Policy, Special Report No. 18, January 1978, pp. 32-33.

²⁹ Given the increased importance of trade in most economies, trade restrictions are also potentially more harmful. In the United States, for example, exports now account for over 12 percent of GNP, double the 6 percent in 1976. The potential disruption that trade restrictions might have on domestic production and employment is, thus, much greater.

one country provides strong world leadership, usually through its military and commercial dominance. As political scientist Susan Strange has stated:

"The liberalism of the 1950's and 1960's was not the norm of trade diplomacy in the world political economy, but rather a temporary aberration resulting from American military and commercial superiority. The strong trader was the free trader and nuclear and financial power gave the right to insist on trade liberalization."

Although this interpretation ignores the fact that some European countries have had long histories of liberal trade policy, it does make a simple and important point: that over the past decades the world has greatly changed with military and economic power more evenly distributed today. This shift may have important consequences for the world trading system.

As Europe and Japan recovered from the effects of World War II, they became strong competitors (and customers), and U.S. trade policy became increasingly concerned with the specific commercial interests of U.S. exporters and importers. The view that U.S. policy in the past often accepted discrimination against U.S. exports and uneven trade rules and agreements primarily out of concern for political objectives gained wide acceptance in the 1970's and was articulated in the Trade Act of 1974, the Trade Agreements Act of 1979 and Reagan's organization Plan No. 3 of 1979.³¹

Concern recently has been voiced that the gradual shift in emphasis from overriding political objectives and sensitivities, represented by the State Department's leading role in trade policy over a number of years, to more strictly commercial objectives may have gone too far. At issue is whether some of the current trends in policies are best suited or appropriate for achieving the long-run interests of the United States. For example, criticism of recent amendments to the antidumping and countervailing duty laws, adopted as part of the Trade Agreements Act of 1979, is based on the shift toward excessively legislative and administrative proceedings.³² It is argued that the current procedures insulate decisionmakers from considering important "facts," such as the potential effect of the decision on political relations with foreign governments. The 1980 antidumping petition filed by the U.S. Steel Corporation covering over a billion dollars of steel imports from seven of our European allies exemplifies the problems that inflexible administrative proceedings can create. Unable legally to negotiate a resolution of the suit through bilateral consultations with the EC, the Carter Administration was forced to reinstitute the trigger price mechanism to persuade U.S. Steel to drop the petition in order to avoid damage to our relations with these countries. The problem is that there is very little scope in these provisions for considering much beyond the interest of the particular U.S. producers who have petitioned for relief.

³¹ Susan Strange, "The Management of Surplus Capacity: Or How Does Theory Stand Up to Fact?", *International Organization*, vol. 33, No. 3, Summer 1979, p. 537.

³² Trade Act of 1974, for example, provided specific economic objectives for U.S. participation in the Tokyo Round. It also provided a new provision, section 301, which gives the President authority to unilaterally retaliate against unfair trade practices. (See Peter D. Ehrenhaft, "What the Antidumping and Countervailing Duty Provisions of the Trade Agreements Act (Can) (WHD) (Should) Mean for U.S. Trade Policy," *Law and Policy in International Business*, vol. 11, 1979.)

III. U.S. TRADE POLICY IN THE 1980's

Along with the challenges to the world trading system, U.S. trade policy in the 1980's must confront a number of difficult issues. Increased competition in domestic and foreign markets and efforts to apply and enforce the new trading rules will raise major problems for U.S. trade policy.

Domestically, efforts to strengthen the domestic economy, enhance the U.S. export position and improve import adjustment policies will be priority concerns. Internationally, negotiations will continue on key issues that were not adequately resolved or which were never addressed in the Tokyo Round. Attempts to negotiate new multilateral rules or to improve existing rules regulating barriers to trade will be given priority. Specifically, issues relating to the implementation of the MTN agreements, the negotiation of a safeguards code, the reduction of barriers to trade in services and investment, policy on trade with developing countries, and trade with non-market economies are all on the trade agenda. Resolution of these issues will affect the international position of the United States during the 1980's.

Domestic Economy

The Reagan Administration's recent "Statement of U.S. Trade Policy," the so-called White Paper, emphasizes the importance of restoring noninflationary growth in order to improve the U.S. trade position in domestic and foreign markets.²⁷ The reason why a healthy economy is critical for improving U.S. trade performance is clear. Greater economic growth will raise productivity, create new jobs and facilitates the transfer of workers and capital in declining industries to growing and more profitable sectors of the economy. Lower levels of inflation will help make U.S. products more competitive abroad. The Administration's White Paper emphasizes that a trade policy which maintains open markets at home and abroad contributes to the twin goals of lower inflation and increased growth.

Although it is uncertain whether the Administration's economic recovery program will achieve lower inflation and higher growth, the international effects of the current domestic economic policy seem clearer. The policy will probably result in a larger trade deficit. Partially as a result of a tight monetary policy and a less stringent fiscal policy (along with large trade deficits and political uncertainties abroad), the dollar has strengthened dramatically in foreign exchange markets. A stronger dollar can help in the fight against inflation, enhance U.S. international economic leadership, and contribute to international monetary stability. However, it is likely that today's strong dollar will contribute to a deterioration in the competitive position of U.S. exports over the next two years. This in turn could lead to current account deficits in 1982 and 1983, and perhaps to a return to the 1977-78 situation of a declining dollar, accompanied by international monetary instability.²⁸ In addition, the tight monetary policy and high interest

²⁷ The Reagan Administration's nine-page "Statement on U.S. Trade Policy" was released on July 8, 1981, before a joint oversight hearing of the Senate Committee on Finance and Senate Committee on Banking, Housing, and Urban Affairs. Copies may be obtained from the Office of the United States Trade Representative.

²⁸ This view is held by C. Fred Bergsten, former Treasury Assistant Secretary in the Carter Administration. The Reagan Administration hopes that the dollar can remain stable, even in the event of larger current deficits. If non-inflationary economic growth is restored. See Washington Post, IMF Report Shows an Inward-Looking Trade World (by) Robert Rowen, Aug. 3, 1981 (Washington Business), p. 3.

rates in the United States have forced European countries to tighten their monetary policies which in some cases run opposite to domestic economic policy objectives. Much of the discussion at the recent economic summit in Ottawa, in fact, focused on these problems which are created by the growing interdependence of the world's economies.

Import Adjustment Policies

Import issues are highly contentious. Jobs and company profits are at stake. Given increased competition in world markets, and high levels of unemployment in all the industrial countries, pressures placed on governments to provide relief to industries, firms, and workers injured by import competition can be expected to increase.

The Reagan Administration, according to its White Paper, will resist these pressures to provide such relief and instead rely substantially on market forces. An administration spokesman elaborated further on the newly enunciated trade adjustment policy in a recent congressional hearing:²⁹

"The emphasis in trade adjustment policies should be just that: adjustment, not preservation of an uncompetitive industrial structure. A healthy, dynamic economy is a flexible economy, where businessmen, consumers, and workers have a continuing opportunity to invest their capital, tailor their budgets and find employment in response to market forces unaffected by artificial government barriers or props. Thus, while there may be a role for government assistance to individual workers who have lost employment because of import displacements, this assistance should be temporary, and oriented toward facilitating their search for new employment in other industries and, conceivably, in other locations. The general rule in trade adjustment situations should be to help individuals, not industries per se.

Implementation of a market-oriented trade adjustment philosophy will create challenges and controversy. Already upon the recommendation of the Administration, the trade adjustment assistance program for workers has been drastically curtailed and the inactive trade adjustment program for communities will be terminated in 1982. In support of the President's budget reductions, amendments to the trade adjustment assistance program for workers entailing much stricter certification standards are expected to result in an 80 to 85 percent cutback in the funding of the program, from \$1.5 billion to \$200 million. The trade adjustment assistance program for firms has been amended to conform to the stricter criteria of the worker program. The Reagan Administration has expressed its intention to keep funding for the program at the \$50 million level.

The utilization of import restrictions to allow industries time to adjust to changed competitive circumstances will also be closely monitored. To date, the Reagan Administration has rejected a recommendation by the U.S. International Trade Commission to extend quotas on Taiwan's footwear exports, but it has urged the imposition of "voluntary" controls on the export of Japanese automobiles. Future industry adjustment problems that will test the Administration's free-market approach include proposals to impose import restrictions on tobacco and efforts to tighten the import restrictions on textiles and apparel products through the implementation of the Multifiber Arrangement Regulating Trade in Textiles.

²⁹ Testimony of Murray L. Woldenbaum, Chairman, President's Council of Economic Advisors before The Senate Banking and Finance Committee on July 9, 1981, p. 12.

Political support for the Administration's import adjustment approach likely will be affected by the enforcement of the domestic unfair trade statutes. Congressional sentiment supporting "free but fair" trade and reciprocity in U.S. trading relations stems, in part, from a longstanding view that the Executive Branch in the past has not rigorously enforced U.S. countervailing duty, anti-dumping and similar laws on unfair trade practices. The Reagan Administration has announced its intention to enforce strictly unfair trade laws as well as the steel trigger price mechanism.

Export Policies

U.S. export performance has shown signs of improvement over the past two years. Due substantially to the lagged effects of the depreciation of the dollar in 1977 and 1978, U.S. exports of manufactured products grew by 23 percent in 1980, increasing the U.S. world share by nearly a full percentage point to 18.3 percent.²² The growth of U.S. exports of goods and services also was stronger in the 1970's (averaging 8.6 percent per year) than in the 1960's (4.3 percent).²³ Despite this progress, it remains clear that there are numerous U.S. policies that still handicap U.S. exporters and prevent U.S. exports from increasing at an even faster rate.²⁴

Government policies and regulations which hinder U.S. exporters through the creation of barriers or additional costs have been termed export "disincentives." Many businessmen maintain that some of these self-imposed barriers are more onerous than many foreign government imposed barriers. The extent to which export opportunities are lost because of disincentives is not easily quantifiable, but the removal or modification of U.S. export disincentives has emerged as a major concern of both the Administration and Congress.

Priority will be given to modification of three export disincentives—export control regulations, tax treatment of U.S. citizens working abroad, and the Foreign Corrupt Practices Act—in an effort to allow exporters more leeway to exploit commercial opportunities abroad. Other export disincentives such as anti-boycott provisions, human rights restrictions on economic and military assistance and export credits, the extraterritorial reach of U.S. antitrust laws and cargo preference requirements will likely also be given some attention in the near future.

The United States has employed export controls since 1940 in the interest of national security, foreign policy, and avoidance of critical shortages. Unlike other Government policies that are frequently labeled export disincentives, export controls are intended to prevent the export of certain goods and services. Restrictions on agricultural exports to the Soviet Union, the partial embargo on shipments to South Africa, and limitations of high technology sales to virtually all Communist countries are among the limitations imposed under the export control authority.

²² Department of Commerce, *Business America*, July 3, 1981, p. 6.

²³ Wellesbaum, *op. cit.*, p. 4.

²⁴ Export Promotion, *Export Disincentives*, and U.S. Competitiveness. Report by the President Pursuant to Section 1110(a) and (b) of the Trade Agreements Act of 1979. Committee Print, Senate Committee on Banking, Housing, and Urban Affairs, Washington, D.C., September 1980.

Critics of the controls seldom contest the legitimate goals which the regulations attempt to achieve, but maintain that the regulations and procedures are arbitrary, time consuming, and unnecessarily restrictive. Government efforts to make the policies more predictable and consistent are being undertaken. In the area of national security controls, an attempt to develop a list of critical technologies so that sensitive exports can be identified and non-sensitive items exempted from specific licensing reviews has been underway for several years. A continuation of this effort can be expected. There is also strong concern in Congress about the differential impact of export controls, particularly that the agricultural sector of the economy not be asked to sacrifice more than any other sector of the U.S. economy.²⁵

Beyond the export control statutes, and perhaps more significant in terms of lost export opportunities, are the treatment of taxation of foreign earned income and the Foreign Corrupt Practices Act. Under current law, U.S. citizens working overseas are provided limited tax relief. Despite the special deductions for extraordinary living expenses and for hardship posts, U.S. businessmen frequently complain about the high cost of employing U.S. citizens abroad. They maintain that Americans have been replaced with foreign nationals who may be paid less because their incomes are not taxed while they are resident or domiciled outside their own countries. Arguably, one consequence of replacing Americans in key positions with foreign nationals is that sales of foreign rather than U.S. goods and services are promoted.

More generous exclusions for income earned abroad are included in Public Law 97-34, the Economic Recovery Tax Act of 1981, which became law on August 13, 1981. The changes undoubtedly will lower the cost of maintaining American employees overseas, but the impact on U.S. exports is more problematical. One recent study maintained that a reduction in American employment-overseas has resulted in a drop in real U.S. exports by about 5 percent.²⁶ The reliability and validity of the study's conclusions, however, have been challenged by a number of observers.²⁷

The Foreign Corrupt Practices Act is another contested provision allegedly resulting in lost export opportunities. The Act, which makes it illegal for U.S. citizens to make payments to foreign government officials for the purpose of obtaining business, is often viewed as an imposition of U.S. ethics on unresponsive foreign states. It also imposes accounting and record keeping regulations on U.S. corporations. A number of U.S. corporations maintain that the Act has been responsible for a loss of foreign sales.

One proposed solution to the competitive disadvantage suffered by U.S. exporters is an international agreement on illicit payments. The need for such an agreement has been endorsed by former President Carter, who raised the issue at the Venice Economic Summit in 1980, and more recently by the Reagan Administration. Another proposed solution is enactment of legislation clarifying some of the ambiguities

²⁵ Legislation has been introduced in the 97th Congress requiring the President to impose controls on all exports, and not just agricultural exports, in cases such as the Soviet invasion of Afghanistan. Economic Impact of Changing Taxation of U.S. Workers Overseas, June 1980.

²⁶ For example, see Tax Notes, A Critique of the Chase Study of the Tax Treatment of U.S. Workers Overseas (by Victor Thornoyl), June 30, 1980, pp. 979-984.

in the FCPA. Legislation which aims at accomplishing that goal has been introduced in both houses in the 97th Congress.

In addition to reducing export disincentives, efforts will be made to provide positive support for U.S. exports. The major U.S. Government programs designed specifically to promote exports are tax incentives, export credits, and informational and marketing programs. The principal tax incentive is the Domestic International Sales Corporation (DISC), which is designed to make exporting more profitable by, in effect, lowering the tax on corporate profits. Attracted by deferral of federal income taxes on one-half of its income profits, DISC's established by major U.S. corporations have accounted in recent years for almost two-thirds of U.S. manufactured exports.

The DISC provision is controversial. Our trading partners question whether the DISC is an internationally accepted tax incentive scheme. The costs and benefits of DISC are also highly contentious. The Carter Administration maintained that DISC is an inefficient use of taxpayers' money and recommended that it be either phased out or revised to a simpler and less costly form. The Reagan Administration, however, is attempting to redesign the DISC into a new incentive scheme which will provide the same level of incentive and will be compatible with the international rules of the GATT.

The Export-Import Bank (Eximbank) of the United States is the principal source of official credit provided to U.S. exporters to improve their ability to compete in international markets. Although the Reagan Administration originally intended to reduce the Eximbank's lending authority by about \$1 billion as part of its budget cutting plan and free market philosophy, Congress, without opposition from the Administration, approved measures restoring substantial amounts of Eximbank funds. A large factor affecting support for increased Eximbank funding has been the lack of success in securing agreement among major trading countries, particularly France, to reduce the subsidy element in export credit financing. If international agreement cannot be reached on reducing export-subsidy competition, the Reagan Administration has indicated a willingness to meet the foreign competition through increased resources and more attractive credit terms. Moreover, legislation has passed the Senate and House Banking Committees to establish a \$1 billion Competitive Export Fund to combat foreign export credit subsidies. The fund would be used in the event no international agreement limiting export credit competition is reached.

Less controversial than the tax and credit programs are a variety of Department of Agriculture, Commerce and Small Business Administration programs to promote exports through informational and marketing services. Perhaps one reason they are less controversial is that the program costs (all of which are under \$100 million) are significantly less than the credit and tax programs. Many of the informational and marketing programs are also targeted to help small and medium size firms get involved in exporting. In the past a major criticism has been that the programs, particularly those administered by the Department of Commerce, have been poorly managed. The Reagan Administration has pledged to ensure that these export promotion programs are more effectively utilized.

Implementation of the MTN Agreements

Implementation of the MTN agreements is a more difficult task than was the case for previous multilateral agreements that focused on the reduction of tariffs. The reduction of tariffs can be a simple, automatic process, but the implementation of nontariff codes is far more complex.

The first task is to obtain widespread international acceptance of the codes. As mentioned previously, most of the industrialized trading countries have signed some or all of the agreements but the participation of developing countries has been disappointing. Efforts to obtain greater participation will continue. Without greater participation, strains will likely be placed on the world trading system. It is also necessary to establish procedures for carrying out national obligations under the codes and for settling disputes. The codes, which are formulated in terms of general principles, must be interpreted and applied to specific cases. Disagreements among governments that were papered over during the negotiations with ambiguous language will have to be resolved as specific cases are brought before GATT dispute-settlement panels.

Although most of the codes have been in place for over nineteen months, there has been no thorough examination of the progress and problems entailed in the implementation process. Only limited and anecdotal evidence points to specific problems that have been discovered in the codes themselves or in initial Government implementation actions.²² Customs authorities in European countries reportedly still place arbitrary values and thus inflated duties on imports, which is contrary to the customs valuation code. Few comments on proposed foreign health and safety standards have been submitted by U.S. business and no formal complaints have been initiated under the product standards code. Despite major efforts to publicize bid opportunities under the Government procurement code, which prohibits discrimination between foreign and domestic suppliers in specified Government purchases, no major Government contracts so far have been won by foreign producers. Similarly, the subsidies/countervailing duty code, which provides a major new weapon against subsidized foreign products that compete with U.S. exports in third country markets, has not been utilized. This initial impression of limited and somewhat disappointing progress will be examined by Congressional trade committees with oversight jurisdiction over MTN implementation in the 97th Congress.

Safeguards Code

One of the biggest disappointments of the MTN was the failure to reach agreement on a Safeguards Code, which would provide a set of improved rules for countries taking "escape clause" actions to protect domestic industries from injurious import competition. The basic "escape clause" (Article XIX of GATT) permit unilateral withdrawal or modification of import concessions or other GATT obligations when they result in increased imports that cause or threaten serious injury to domestic producers. Article XIX provides for prior consultation and subsequent compensation.

²² For such a review, see Journal of Commerce, "Tokyo Round Codes Lie Fallow" (by) Elizabeth V. Perkins, July 28, 1981, p. 4A.

Over the years, as discussed above, great uncertainty developed concerning the types of situations that warrant safeguard actions and, in turn, the types of protective or remedial measures that may legitimately be taken. Problems of this kind have proliferated as countries have disregarded the GATT safeguard procedures. Orderly marketing agreements (OMAs) and voluntary restraint agreements (VRAs) are examples of safeguard measures increasingly used outside the GATT rules.

The main disagreement in the safeguards negotiations is over the issue of "selectivity." The European Community insists that countries be allowed to apply import restrictions against selected exporting countries, rather than applying such measures on a non-discriminatory basis (i.e., to all suppliers of a commodity). The developing countries and Japan maintain that selective use of import restrictions is inconsistent with the most-favored-nation or non-discrimination provision of the GATT, and undermines much of the economic rationale and political support for a multilateral trading system. The United States basically opposes selectivity and has attempted to negotiate a code that would provide rules, standards, and international surveillance over the use of safeguard measures. The negotiation of a safeguards code will remain an important trade issue because without such a code orderly marketing and voluntary restraint agreements are likely to proliferate.

Trade In Services

The services sector of the U.S. economy has grown rapidly in the past thirty years. Services, which include such industries as accounting, banking, insurance, telecommunications, and transportation have now replaced the manufacturing sector as the dominant element of the U.S. economy. Currently, nearly half of GNP and close to 70 percent of all U.S. jobs are derived from services. While U.S. exports of services have nearly doubled in six years from \$17 billion in 1974 to \$31 billion in 1979, their growth has been hampered by foreign import restrictions and other discriminatory policies.³³

As the world's leading trader of services, the United States has a strong interest in eliminating barriers to such trade. Various U.S. agencies and the Organization for Economic Co-operation and Development (OECD) have mounted initiatives to identify barriers in order to create a consensus in favor of a major multilateral negotiation.³⁴ The purpose of the negotiations would be the development of multilateral principles, rules and procedures for the liberalization of trade in services and for the resolution of international disputes in the field.

Any negotiations on services will be difficult. To begin with, no comprehensive data on services barriers exist. Some barriers to services interfere with overseas investment while others interfere with merchandise trade. For example, investors in overseas service enterprises often experience difficulty with remittance of profits, discriminatory taxes and inadequate protection of trade marks and copyrights. Traders have to contend with government-subsidized competition, com-

³³ Liboroff, David D. "U.S. International Service Trade," Congressional Research Service, Library of Congress Report No. 86-124 E, Aug. 21, 1986, 18 pages.
³⁴ Liboroff, David D. "Initiatives to Reduce Barriers to International Service Industries," Congressional Research Service, Library of Congress Report No. 80-297 E, Dec. 2, 1980, 19 pages.

petition from nationalized industries, and discriminatory licensing regulations. Because so many of the barriers are intertwined with domestic regulations and policies, barriers will not be easily removed. A protracted process of building political support for bilateral and multilateral negotiations in services can be expected.

Investment Policies

The 1970's witnessed a rapid increase in U.S. foreign direct investment flows. Between 1970 and 1979, U.S. direct investments in foreign countries more than doubled from \$75.5 billion to \$192.6 billion. Foreign direct investments in the United States grew at an even faster rate, rising from \$13.3 billion in 1970 to \$52.3 billion in 1979. In aggregate terms, the importance of these flows is illustrated by the fact that in 1979 U.S. income from foreign direct investment exceeded foreign receipts from direct investments in the United States by \$33.8 billion, providing a substantial offset to a merchandise trade deficit of \$39.5 billion. In addition, earnings from foreign direct investments, as a percentage of total profits of U.S. corporations, have grown from 12 percent in 1970 to over 33 percent in 1980.

The traditional explicit U.S. policy toward investment has been one of neutrality, neither encouraging nor discouraging foreign investments. Both the rapid increase in foreign direct investments in the United States in the 1970's and the increasing incidence of foreign government policies that inhibit U.S. investments have become topics of increased controversy in recent years. Some members of Congress have been critical of the rise in foreign investments in the United States, some of which have been made in important U.S. industries. Legislation to restrict specific types of investments in the United States or to place conditions upon the investments has been proposed and introduced by some Members of Congress. In addition, the United Auto Workers' proposal to apply domestic content requirements to auto production and trade in the United States is expected to receive a Congressional review.

Unlike the current U.S. policy of neutrality toward foreign direct investment, some foreign policies tend to either artificially attract or inhibit foreign investments. Such policies include investment incentives by States and localities, which distort international investment by shifting the location of production facilities, and performance requirements, which require that a certain percentage of production be exported or produced with domestic labor and materials. Canada's national energy policy, which requires foreign firms to be at least 50 percent Canadian-owned by 1990, is the most highly publicized recent example of restrictive investment policies. U.S. trade policymakers thus face the task of initiating multilateral or bilateral negotiations to reduce or eliminate many of these policies that distort trade and investment and adversely affect U.S. commercial interests. If negotiations fail, the Reagan Administration likely will consider some form of retaliation against the most egregious restrictions.

Trade With Developing Countries

Developing countries are of growing importance to U.S. trading interests. As a whole, they constitute the fastest growing market for

an increasingly large share of total U.S. exports. During the 1970's, U.S. exports to developing countries grew at an annual average rate of 20 percent, compared to 15 percent for U.S. exports to developed countries. In 1980, developing countries accounted for over 35 percent of U.S. exports, a share exceeding the combined total of East and West Europe, the Soviet Union, China and Japan. This compares to a 30 percent share in 1970. The United States is even more heavily dependent on developing countries for imports. In 1980 imports from developing countries accounted for over 45 percent of total U.S. imports with particular heavy dependence on oil and raw material supplies. In addition, the United States has a large and growing stake in investment and private lending activities to developing countries.

Much of the attention of the Tokyo Round was devoted to defining special rules for developing country participation in the world trading system. The key document in this respect was the MTN Framework agreement, which established a legal basis for the differential treatment of developing countries (i.e., that they would have fewer obligations and receive preferential treatment in recognition of their developing status). The concept of graduation (i.e., where the preferential treatment would be phased out for countries that reach more advanced levels of development and where eventually greater obligations of the world trading system would be undertaken) was also established. The concept of differential treatment is embodied in the nontariff barrier codes negotiated in the Tokyo Round and also in the U.S. Generalized System of Preferences (GSP).

A major trade problem in the 1980's will arise from government attempts to apply these concepts to different countries at different levels of development. In applying the concepts to actual trade issues, subjective judgments concerning stages of development, the nature of developing country policies which restrict trade, and the importance of a particular industry or sector to a developing country's overall economy, will have to be made. Already, as previously discussed, such initial decisions by U.S. trade policymakers have caused friction with India on the subsidies/countervailing duty code.⁴ During the next few years, more difficulties in applying a regime of differential treatment and graduation on a country-by-country basis can be expected.

The U.S. GSP provides preferential treatment for many agricultural and manufactured products of developing countries to enter the United States free of duty. The program provides for the removal of preferential treatment for particular products whenever exports from any beneficiary developing country reach competitive levels (as determined by a "competitive-need" formula provided for in U.S. law).

The program has been criticized both by eligible developing countries and by representatives of those industries that are affected by duty-free GSP imports.⁵ The beneficiary developing countries are particularly dissatisfied with the exclusion of a number of products of great interest, such as textiles and footwear. They also believe that the competitive need formula is too restrictive. In contrast, U.S. labor and business interests maintain that both products and countries

⁴ Journal of Commerce, "India Scores U.S. Finding On Subsidies," July 22, 1981, p. 8.
⁵ See Congressional Budget Office, "Evaluating the Developing Countries: Budget and Trade Policies of the United States," September 1980, pp. 65-66.

should be removed permanently from eligibility under certain circumstances. They point to the fact that five advanced developing countries have accounted for over one-half of GSP trade. The contention is that the permanent removal of both specific product and country eligibility is necessary in order that the poorest developing countries can take advantage of GSP. Legislative changes in the program will be considered in the 97th Congress.

Trade With Non-Market Economies

United States trade with non-market economies has grown rapidly in the past five years, increasing over six-fold since 1975.⁶ The volume of trade, however, still accounts for a small portion of total U.S. trade, less than 3 percent in 1980. Nevertheless, commercial importance is attached to expanding trade with these countries because they do, together with the developing countries, represent a potential growth market for U.S. exports.

Special considerations, both political and economic, condition U.S. trade policy toward non-market economies. Economic, political and strategic considerations in the past have been of overriding importance. Various actions linking trade with the political behavior (both domestic and foreign policy) of these countries were taken during the 1970's. The Reagan Administration has announced a continuation of this policy in its East-West trade report:⁷

United States trade policy towards the nonmarket economy countries must be viewed in the context of overall bilateral relations as well as in the context of international commitments. As such, this policy recognizes the interrelationship among the economic, political and strategic factors shaping bilateral relations. This clearly implies that U.S. bilateral trade relations will vary from country to country. Not only will U.S. trade relations differ between nonmarket economy and market economy countries, but our trade relations with countries within these groups will also differ.

Thus, a variety of differential bilateral trading relationships can be expected to continue under the Reagan Administration.

In instances where bilateral political factors occasion a decision to expand commercial relations, various U.S. statutory or regulatory restrictions would be considered for removal.⁸ The biggest handicap for most of these countries in increasing their imports from the United States is a shortage of foreign exchange. Thus, eligibility to receive Export-Import Bank and Commodity Credit Corporation financing would be critical for some of the countries which are not presently eligible. Numerous obstacles, other than those imposed by U.S. laws, resulting from the differences between market and non-market oriented economies might also have to be addressed by policymakers. Problems concerning the implementation of trade agreements and concessions, nontariff barriers, and the fuller integration of these countries into a world trading system characterized by market ori-

⁶ The term "non market" economy generally applies to Albania, Bulgaria, Cambodia, Cuba, Czechoslovakia, German Democratic Republic, Laos, North Korea, People's Republic of China, Poland, Romania, Union of Soviet Socialist Republics and Vietnam.
⁷ East-West Trade Report, April 1981. Copies may be obtained from the Office of the United States Trade Representative.

⁸ For an exhaustive examination of such restrictions, as related to East European countries, see Vladimir Prezelj, "Normalization of U.S. Relations With East Europe," in U.S. Congress, Joint Economic Committee, East European Economic Assessment Part 2, July 10, 1981, pp. 607-681.

ented rules might all have to be addressed contingent upon an expansion of commercial relations.

IV. CONCLUSION

The world trading system and U.S. trade policy face serious challenges in the 1980's. Although the major trading countries have made only moderate use of safeguard actions in recent years, many of the trade restrictions have been implemented on a selective and discriminatory basis. Critics of such implementation assert that it undermines the economic efficiency, political trust and the rules of GATT and could encourage future protectionist actions. More immediate challenges are government actions to regulate trade in the textile and steel sectors more tightly. These trade decisions pose difficult problems because they involve, on the one hand, jobs and profits of particular workers and firms, and on the other hand, an overall economic concern to fight inflation, to raise real wages nationally and to reduce unemployment. The aspirations of developing countries for greater economic growth depend substantially on finding lasting solutions to these problems.

Difficult domestic and international economic issues present opportunities for improvement in the U.S. trade position and the rules of the world trading system. Domestically, the Reagan Administration's economic recovery program, import adjustment and export expansion policies are all intended to enhance U.S. trade competitiveness. Difficulties caused by the current strength of the dollar and some political opposition to a free market import adjustment policy can be expected. The outcome of negotiations to limit international credit competition will substantially determine the extent to which the United States increases its financial support to U.S. exporters.

Internationally, in the near future an assessment will be made on the extent to which the MTN agreements have provided for a more open world trading system. The outcome of negotiations on a safeguards code and barriers to trade in services and foreign direct investment will also influence the economic growth of the United States and the openness of the world trading system. U.S. trade relations with developing countries and non-market economies not only are becoming more important, but they pose difficult political and economic issues. As in the past, overall U.S. trade policy and the world trading system will be also influenced by foreign policies and developments, issues which are beyond the scope of this review.

1. Trade Legislation and Related Documents

a. Trade Act of 1974, as amended

Partial text of Public Law 93-618 (H.R. 10710), 93 Stat. 1978, approved January 3, 1975 as amended by Public Law 94-455 (H.R. 16612), 94 Stat. 1520 at 1763, approved October 4, 1976; and by Public Law 96-39 (H.R. 4537), 93 Stat. 144, approved July 26, 1979.

AN ACT To promote the development of an open, nondiscriminatory, and fair world economic system, to stimulate fair and free competition between the United States and foreign nations, to foster the economic growth of, and full employment in, the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Trade Act of 1974".

Sec. 2. Statement of Purposes.

The purposes of this Act are, through trade agreements affording mutual benefits—

- (1) to foster the economic growth of and full employment in the United States and to strengthen economic relations between the United States and foreign countries through open and nondiscriminatory world trade;
- (2) to harmonize, reduce, and eliminate barriers to trade on a basis which assures substantially equivalent competitive opportunities for the commerce of the United States;
- (3) to establish fairness and equity in international trading relations, including reform of the General Agreement on Tariffs and Trade;
- (4) to provide adequate procedures to safeguard American industry and labor against unfair or injurious import competition, and to assist industries, firm, workers, and communities to adjust to changes in international trade flows;
- (5) to open up market opportunities for United States commerce in nonmarket economies; and
- (6) to provide fair and reasonable access to products of less developed countries in the United States market.

TITLE I—NEGOTIATING AND OTHER AUTHORITY

CHAPTER 1—RATES OF DUTY AND OTHER TRADE BARRIERS

Sec. 101. Basic Authority for Trade Agreements.¹

- (a) Whenever the President determines that any existing duties or

¹ 19 U.S.C. 2101-2407.

² Sec. 224 of Public Law 90-10 (Trade Agreements Act of 1970; 90 Stat. 232) provided that for purposes of this section, "the duties or other barriers in rate columns numbered 1 or 2 are the duties or other barriers in rate columns numbered 1 or 2 as the result of the amendments, if any, made under sections 503, 504, 509, 510, 511, and 514 shall be considered to be the rates of duty existing or in effect on January 1, 1976."

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

CHAPTER 1—ENFORCEMENT OF UNITED STATES RIGHTS UNDER TRADE AGREEMENTS AND RESPONSE TO CERTAIN FOREIGN TRADE PRACTICES¹

Sec. 301.² Determinations and Action by President.

(a) DETERMINATIONS REQUIRING ACTION.—If the President determines that action by the United States is appropriate—

- (1) to enforce the rights of the United States under any trade agreement; or
- (2) to respond to any act, policy, or practice of a foreign country or instrumentality that—

(A) is inconsistent with the provisions of, or otherwise denies benefits to the United States under, any trade agreement, or

(B) is unjustifiable, unreasonable, or discriminatory and burdens or restricts United States commerce;

the President shall take all appropriate and feasible action within his power to enforce such rights or to obtain the elimination of such act, policy, or practice. Action under this section may be taken on a nondiscriminatory basis or solely against the products or services of the foreign country or instrumentality involved.

(b) OTHER ACTION.—Upon making a determination described in subsection (a), the President, in addition to taking action referred to in such subsection, may—

- (1) suspend, withdraw, or prevent the application of, or refrain from proclaiming, benefits of trade agreement concessions to carry out a trade agreement with the foreign country or instrumentality involved; and
- (2) impose duties or other import restrictions on the products of, and fees or restrictions on the services of, such foreign country or instrumentality for such time as he determines appropriate.

(c) PRESIDENTIAL PROCEDURES.—

- (1) ACTION ON OWN MOTION.—If the President decides to take action under this section and no petition requesting action on the matter involved has been filed under section 302, the President shall publish notice of his determination, including the reasons for the determination in the Federal Register. Unless he determines that expeditious action is required, the President shall provide an opportunity for the presentation of views concerning the taking of such action.
- (2) ACTION REQUESTED BY PETITION.—Not later than 21 days after the date on which he receives the recommendation of the Special Representative under section 304 with respect to a petition, the President shall determine what action, if any, he will take under this section, and shall publish notice of his determination, including the reasons for the determination, in the Federal Register.

¹ Chapter 1 of title III of this Act was amended and recited by Sec. 901 of Public Law 96-39 (Trade Agreements Act of 1979; 93 Stat. 266). Former sections 301 and 302 entitled "Investment and Trade Restrictions by Foreign Governments and Procedures for Congressional Disapproval of Certain Actions Taken Under Section 301," respectively, were replaced while new sections 303-308 were added.

(d) **SPECIAL PROVISIONS.**—

(1) **DEFINITION OF COMMERCE.**—For purposes of this section, the term "commerce" includes, but is not limited to, services associated with international trade, whether or not such services are related to specific products.

(2) **VESSEL CONSTRUCTION SUBSIDIES.**—An act, policy, or practice of a foreign country or instrumentality that burdens or restricts United States commerce may include the provision, directly or indirectly, by that foreign country or instrumentality of subsidies for the construction of vessels used in the commercial transportation by water of goods between foreign countries and the United States.

Sec. 302.²² Petitions for Presidential Action.

(a) **FILING OF PETITION WITH SPECIAL REPRESENTATIVE.**—Any interested person may file a petition with the Special Representative for Trade Negotiations (hereinafter in this chapter referred to as the "Special Representative") requesting the President to take action under section 301 and setting forth the allegations in support of the request. The Special Representative shall review the allegations in the petition and, not later than 45 days after the date on which he received the petition, shall determine whether to initiate an investigation.

(b) **DETERMINATIONS REGARDING PETITIONS.**—

(1) **NEGATIVE DETERMINATION.**—If the Special Representative determines not to initiate an investigation with respect to a petition, he shall inform the petitioner of his reasons therefor and shall publish notice of the determination, together with a summary of such reasons, in the Federal Register.

(2) **AFFIRMATIVE DETERMINATION.**—If the Special Representative determines to initiate an investigation with respect to a petition, he shall initiate an investigation regarding the issues raised.²³ The Special Representative shall publish the text of the petition in the Federal Register and shall, as soon as possible, provide opportunity for the presentation of views concerning the issues, including a public hearing—

(A) within the 30-day period after the date of the determination (or on a date after such period if agreed to by the petitioner), if a public hearing within such period is requested in the petition; or

(B) at such other time if a timely request therefor is made by the petitioner.

Sec. 303.²⁴ Consultation Upon Initiation of Investigation.

On the date an affirmative determination is made under section 302(b) with respect to a petition, the Special Representative, on behalf of the United States, shall request consultations with the foreign country or instrumentality concerned regarding issues raised in the

petition. If the case involves a trade agreement and a mutually acceptable resolution is not reached during the consultation period, if any, specified in the trade agreement, the Special Representative shall promptly request proceedings on the matter under the formal dispute settlement procedures provided under such agreement. The Special Representative shall seek information and advice from the petitioner and the appropriate private sector representatives provided for under section 135 in preparing United States presentations for consultations and dispute settlement proceedings.

Sec. 304.²⁵ Recommendations by the Special Representative.

(a) **RECOMMENDATIONS.**—

(1) **IN GENERAL.**—On the basis of the investigation under section 302, and the consultations (and the proceedings, if applicable) under section 303, and subject to subsection (b), the Special Representative shall recommend to the President what action, if any, he should take under section 301 with respect to the issues raised in the petition. The Special Representative shall make that recommendation not later than—

(A) 7 months after the date of the initiation of the investigation under section 302(b) (2) if the petition alleges only an export subsidy covered by the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (relating to subsidies and countervailing measures and hereinafter referred to in this section as the "Subsidies Agreement");

(B) 8 months after the date of the investigation initiation if the petition alleges any matter covered by the Subsidies Agreement other than only an export subsidy;

(C) in the case of a petition involving a trade agreement approved under section 2(a) of the Trade Agreements Act of 1979 (other than the Subsidies Agreement),²⁶ 30 days after the dispute settlement procedure is concluded; or

(D) 12 months after the date of the investigation initiation in any case not described in subparagraph (A), (B), or (C).

(2) **SPECIAL RULE.**—In the case of any petition—

(A) an investigation with respect to which is initiated on or after the date of the enactment of the Trade Agreements Act of 1979 (including any petition treated under section 903 of that Act as initiated on such date);²⁷ and

(B) to which the 12-month time limitation set forth in subparagraph (D) of paragraph (1) would but for this paragraph apply;

if a trade agreement approved under section 2(a) of such Act of 1979 that relates to any allegation made in the petition applies between the United States and a foreign country or instrumentality before the 12-month period referred to in subparagraph (B) expires, the Special Representative shall make the recommendation required under paragraph (1) with respect to the petition not later than the close of the period specified in subparagraph (A).

²² For text, see page 75.

²³ Such Act was enacted on July 26, 1979.

²⁴ Sec. 903 of Public Law 96-39 (Trade Agreements Act of 1979; 93 Stat. 300) stated that in the case of any petition for review filed with the Special Representative prior to the effective date of amendments made to this chapter by Sec. 501 of Public Law 101-39 (July 26, 1979), such petition for review should be treated as an investigation initiated on July 26, 1979, under this subsection and that any information developed by, or submitted to, the Special Representative before July 26, 1979, under the review should be treated as part of the information developed during such investigation.

(B), or (C), as appropriate, of such paragraph, and for purposes of such subparagraph (A) or (B), the date of the application of such trade agreement between the United States and the foreign country or instrumentality concerned shall be treated as the date on which the investigation with respect to such petition was initiated; except that consultations and proceedings under section 303 need not be undertaken within the period specified in such subparagraph (A), (B), or (C), as the case may be, to the extent that the requirements under such section were complied with before such period begins.

(3) **REPORT IF SETTLEMENT DELAYED.**—In any case in which a dispute is not resolved before the close of the minimum dispute settlement period provided for in a trade agreement referred to in paragraph (1)(C) (other than the Subsidies Agreement), the Special Representative, within 15 days after the close of such period, shall submit a report to Congress setting forth the reasons why the dispute was not resolved within the minimum period, the status of the case at the close of the period, and the prospects for resolution. For purposes of this paragraph, the minimum dispute settlement period provided for under any such trade agreement is the total period of time that results if all stages of the formal dispute settlement procedures are carried out within the time limitations specified in the agreement, but computed without regard to any extension authorized under the agreement of any stage.

(b) **CONSULTATION BEFORE RECOMMENDATION.**—Before recommending that the President take action under section 301 with respect to the treatment of any product or service of a foreign country or instrumentality which is the subject of a petition filed under section 302, the Special Representative, unless he determines that expeditious action is required—

- (1) shall provide opportunity for the presentation of views, including a public hearing if requested by any interested person;
- (2) shall obtain advice from the appropriate private sector advisory representatives provided for under section 136; and
- (3) may request the views of the International Trade Commission regarding the probable impact on the economy of the United States of the taking of action with respect to such product or service.

If the Special Representative does not comply with paragraphs (1) and (2) because expeditious action is required, he shall, after making the recommendation concerned to the President, comply with such paragraphs.

• • • • •

remedies which may be available under that agreement and under the laws of the United States; and

(3) past and present domestic and international proceedings or actions with respect to the policy or practice concerned.

(b) **IF INFORMATION NOT AVAILABLE.**—If information that is requested by an interested party under subsection (a) is not available to the Special Representative or other Federal agencies, the Special Representative shall, within 30 days after receipt of the request—

- (1) request the information from the foreign government; or
- (2) decline to request the information and inform the person in writing of the reasons for the refusal.

Sec. 306. Administration.

The Special Representative shall—

- (1) issue regulations concerning the filing of petitions and the conduct of investigations and hearings under this chapter;
- (2) keep the petitioner regularly informed of all determinations and developments regarding his case under this section, including the reasons for any undue delays; and
- (3) submit a report to the House of Representatives and the Senate semiannually describing the petitions filed and the determinations made (and reasons therefor) under section 302, developments in and current status of each such proceeding, and the actions taken, or the reasons for no action, by the President under section 301.

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GENERAL AGREEMENT ON TARIFFS AND TRADE—GATT

Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland

Telephone: 31 02 31.

Established in 1948 to achieve a substantial reduction of tariffs and other barriers to trade.

CONTRACTING PARTIES TO THE GATT

85 states; 2 states have acceded provisionally to GATT and 30 in practice apply the rules of GATT to their commercial policy: see Table on pages 27-30.

ORGANIZATION

(as of October 1980)

SESSIONS

Chairman (1979-80): ERIK NETTEL (Austria).

The sessions of Contracting Parties are usually held annually, in Geneva.

The Session is the highest body of GATT. Decisions are generally arrived at by consensus, not by vote. On the rare occasions that voting takes place, each contracting party (member country) has one vote. Most decisions by vote are taken by simple majority; but a two-thirds majority, with the majority comprising more than half the member countries, is needed for "waivers", authorizations, in particular cases, to depart from specific obligations under the General Agreement. (When the members thus act collectively, they are referred to in GATT documents as Contracting Parties). Outside the Sessions, votes may be taken by postal ballot.

COUNCIL OF REPRESENTATIVES

Meets as necessary (generally about eight times a year) to deal with urgent and routine matters arising between sessions and to supervise the work of committees and working groups.

SECRETARIAT

Director-General: ARTHUR DUNKEL (Switzerland).

The secretariat, numbering about 300 persons, consists of experts in trade policy and research and an adminis-

trative staff. It prepares and runs the Sessions and services the work of the Council and of the committees, working groups and panels of independent experts. It is also responsible for organizing multilateral trade negotiations held within the framework of GATT.

COMMITTEES AND WORKING PARTIES

Standing committees or councils exist to direct GATT work on trade and development issues; to carry on trade negotiations among developing countries; to examine the situation of countries using trade restrictions to protect their balance of payments; to supervise implementation of the various Tokyo Round agreements which took effect in 1980; to supervise the Arrangement Regarding International Trade in Textiles (Multifibre Arrangement); and to deal with budget, financial and administrative questions.

A Consultative Group of Eighteen, consisting of high-level representatives with responsibility for trade policy in their countries, was established in 1975.

Working parties (ad hoc committees) are set up to deal with current questions, such as requests for accession to GATT; verification that agreements concluded by member countries are in conformity with GATT; or studies of issues on which the member countries will later wish to take a joint decision. Panels of independent experts are often set up to investigate disputes and report their conclusions to the Council.

INTERNATIONAL TRADE CENTRE

4 chemin des Merciers, 1211 Geneva, Switzerland

Director: P. C. ALEXANDER.

Established by GATT in May 1964, the Centre has been jointly operated since January 1968 by GATT and UNCTAD.

It assists developing countries to formulate and imple-

ment trade promotion programmes; provides information and advice on export markets and marketing techniques, helps to develop export promotion and marketing institutions and services, and trains national personnel.

AIMS

GATT is a multilateral treaty which lays down agreed rules for the conduct and furtherance of world trade and is accepted by countries responsible for over four-fifths of that trade. GATT provides a forum in which governments can negotiate for the further liberalization of world trade

and in which differences on trade matters among the members can be settled. It is designed to achieve the objectives set out in the preamble to the Agreement where the Contracting Parties recognize that "their relations in the field of trade and economic endeavour should be

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INTERNATIONAL ORGANIZATIONS

conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding

United Nations (Specialized Agencies)

the production and exchange of goods, and promoting the progressive development of the economies of all the Contracting Parties."

THE AGREEMENT

GATT is based on a comparatively few fundamental principles. First, as directed in the famous "most-favoured-nation" clause, trade must be conducted on the basis of non-discrimination: all Contracting Parties are bound to grant to each other treatment as favourable as they give to any country in the application and administration of import and export duties and charges. Exceptions—principally for customs unions and free trade areas and for measures in favour of and among developing countries (see Tokyo Round "framework" agreements below)—are granted only subject to strict rules.

Second, protection should be given to domestic industry essentially through the customs tariff. The aim of this rule is to make the extent of protection clear and to make competition possible.

Third, a stable and predictable basis for trade is provided by the binding of the tariff levels negotiated among the Contracting Parties. These bound items are listed for each country in tariff schedules which form an integral part of the General Agreement. A return to higher tariffs is discouraged by the requirement that any increases are compensated for; consequently this provision is invoked rarely.

Consultation, to avoid damage to the trading interests of

Contracting Parties, is another fundamental principle of GATT. Members are able to call on GATT for a fair settlement of cases in which they think their rights under the General Agreement are being withheld or compromised by other members.

There are "waiver" procedures whereby a country may, when its economic or trade circumstances so warrant, seek a derogation from a particular GATT obligation or obligations. There are also escape provisions for emergency action in certain defined circumstances.

The trade problems of developing countries receive special attention in GATT. In 1965 a new chapter on Trade and Development was added to the General Agreement; a key provision is that developing countries should not be expected to offer reciprocity in negotiations with developed countries. GATT members have also relaxed the most-favoured-nation rule to accommodate the Generalized Scheme of Preferences by developed for developing countries and to allow an exchange of preferential tariff reductions among developing countries.

Finally, GATT offers a framework within which negotiations are held for the reduction of tariffs and other barriers to trade and a structure for putting the results of such negotiations into a legal instrument.

ACTIVITIES

(to September 1980)

Much of GATT's regular work consists of consultations and negotiations on specific trade problems affecting individual commodities or member countries.

From time to time, major multilateral trade negotiations also take place under GATT auspices. There have been seven rounds of such negotiations: in 1947 (in Geneva), in 1949 (Annecy, France), 1951 (Torquay, England), 1956 (Geneva), 1960-61 (Geneva, the "Dillon Round"), 1964-67 (Geneva, the "Kennedy Round"), and 1973-79 (Geneva, the "Tokyo Round", so called because the negotiations were launched at a Ministerial meeting in the Japanese capital in September 1973).

Ninety-nine countries participated in the "Tokyo Round". In November 1979 the negotiations were successfully concluded with agreements covering: an improved legal framework for the conduct of world trade (which includes recognition of tariff and non-tariff treatment in favour of and among developing countries as a permanent legal feature of the world trading system); 20 tariff measures (subsidies and countervailing duties; technical barriers to trade; government procurement; customs valuation; import licensing procedures; and a revision of the 1967 GATT anti-dumping code); bovine meat; dairy products; tropical products; and an agreement on free trade in civil aircraft. The agreements contain provisions for special and more favourable treatment for developing countries.

Participating countries also agreed to reduce tariffs on thousands of industrial and agricultural products, for the most part over a period of seven years beginning on January 1st, 1980. As a result of these concessions, industrialized countries will reduce the average level of their import duties on manufactures by about 34 per cent, a cut comparable with that achieved in the Kennedy Round of 1964-67.

The agreements providing an improved framework for the conduct of world trade took effect in November 1979. The other agreements took effect on January 1st, 1980, except for those covering government procurement and customs valuation, which were to take effect on January 1st, 1981, and the concessions on tropical products which began as early as 1977. Committees were established in 1980 to supervise implementation of the agreements which entered into force that year, and negotiations continued on the one major unresolved "Tokyo Round" issue of whether to revise GATT rules on emergency safeguard action against imports.

A new work programme was established in November 1979, giving priority to full implementation of the Tokyo Round agreements, future trade liberalization and further efforts to assist the trade of developing countries; the Committee on Trade and Development is largely responsible for these efforts, and its role was strengthened in the work programme.

INTERNATIONAL ORGANIZATIONS

Much of world trade in textiles and clothing is regulated by an Arrangement Regarding International Trade in Textiles that entered into force in January 1974 under GATT auspices for a period of four years. In December

United Nations (Specialized Agencies)

1977 the signatory Governments of the Arrangement decided to extend it for a further four years from January 1st, 1978.

BUDGET

Payments are based on each member's share of the total trade between members. The budget for 1980 totalled 39,830,000 Swiss francs.

PUBLICATIONS

(available in English, French and Spanish editions).

International Trade. Annual report on the main developments in international trade.

GATT Activities. Issued annually.

Basic Instruments and Selected Documents series. Annual supplements record the formal decisions of the Members, important committee papers, etc. Volume IV gives the current text of the General Agreement.

GATT Studies in International Trade (occasional series of staff papers).

GATT: What it is, What it does.

The Tokyo Round of Multilateral Trade Negotiations. A two-volume report by the Director-General. Copies of the multilateral agreements concluded in the Tokyo Round are available.

¹ Countries to whose territories GATT has been applied and which now, as independent states, maintain a *de facto* application of the GATT pending final decisions as to their future commercial policy.

² Acceded provisionally to GATT.

³ Hong Kong is an associate member of IMCO.

⁴ An entry in the name of China, although not represented in the organization, is officially included in the list of members of ILO. Namibia (South West Africa) is a full member of ILO.

⁵ Members also include British Overseas Territories, French Overseas Territories, Macau and United States Territories.

⁶ Members also include British Overseas Territories, French Overseas Territories, Macau, the Netherlands Antilles and United States Territories.

⁷ Members also include British Caribbean Territories, French Polynesia, Hong Kong, the Netherlands Antilles and New Caledonia, all of which maintain their own meteorological service.

⁸ Namibia (South West Africa) is also a member of UNESCO. The British Eastern Caribbean Group is an associate member of UNESCO.

⁹ Suspended from WMO April 1975.

¹⁰ The situation of Viet-Nam in respect of the Convention establishing WIPO was under consideration in 1979.

¹¹ Namibia is also a member of FAO.

¹² Namibia is an associate member of WHO.

¹³ For a breakdown of IFAD members by category, see page 50.

MEMBERSHIP OF THE UNITED NATIONS AND ITS SPECIALIZED AGENCIES

	UN	IBRD	IDA	IFC	IMF	FAO ^a	IFAD ^b	GATT
Afghanistan	X	X	X	X	X	X	X	
Albania	X	X	X	X	X	X	X	
Algeria ¹	X	X	X	X	X	X	X	
Angola ¹	X	X	X	X	X	X	X	
Argentina	X	X	X	X	X	X	X	
Australia	X	X	X	X	X	X	X	
Austria	X	X	X	X	X	X	X	
Bahamas ¹	X	X	X	X	X	X	X	
Bahrain ¹	X	X	X	X	X	X	X	
Bangladesh	X	X	X	X	X	X	X	
Barbados	X	X	X	X	X	X	X	
Belgium	X	X	X	X	X	X	X	
Benin	X	X	X	X	X	X	X	
Bhutan	X	X	X	X	X	X	X	
Bolivia	X	X	X	X	X	X	X	
Botswana ¹	X	X	X	X	X	X	X	
Brazil	X	X	X	X	X	X	X	
Bulgaria	X	X	X	X	X	X	X	
Burma	X	X	X	X	X	X	X	
Burundi	X	X	X	X	X	X	X	
Byelorussian S.S.R.	X	X	X	X	X	X	X	
Cameroon	X	X	X	X	X	X	X	
Canada	X	X	X	X	X	X	X	
Cape Verde ¹	X	X	X	X	X	X	X	
Central African Republic	X	X	X	X	X	X	X	
Chad	X	X	X	X	X	X	X	
Chile	X	X	X	X	X	X	X	
China, People's Republic	X	X	X	X	X	X	X	
Colombia ¹	X	X	X	X	X	X	X	
Comoros	X	X	X	X	X	X	X	
Congo	X	X	X	X	X	X	X	
Costa Rica	X	X	X	X	X	X	X	
Cuba	X	X	X	X	X	X	X	
Cyprus	X	X	X	X	X	X	X	
Czechoslovakia	X	X	X	X	X	X	X	
Denmark	X	X	X	X	X	X	X	
Djibouti	X	X	X	X	X	X	X	
Dominica ¹	X	X	X	X	X	X	X	
Dominican Republic	X	X	X	X	X	X	X	
Ecuador	X	X	X	X	X	X	X	
Egypt	X	X	X	X	X	X	X	
El Salvador	X	X	X	X	X	X	X	
Equatorial Guinea ¹	X	X	X	X	X	X	X	
Ethiopia	X	X	X	X	X	X	X	
Fiji ¹	X	X	X	X	X	X	X	
Finland	X	X	X	X	X	X	X	
France	X	X	X	X	X	X	X	
Gabon	X	X	X	X	X	X	X	
Gambia	X	X	X	X	X	X	X	
German Democratic Rep.	X	X	X	X	X	X	X	
Germany, Federal Rep.	X	X	X	X	X	X	X	
Ghana	X	X	X	X	X	X	X	
Greece	X	X	X	X	X	X	X	
Grenada ¹	X	X	X	X	X	X	X	
Guatemala	X	X	X	X	X	X	X	
Guinea	X	X	X	X	X	X	X	
Guinea-Bissau ¹	X	X	X	X	X	X	X	
Guyana	X	X	X	X	X	X	X	
Haiti	X	X	X	X	X	X	X	
Honduras	X	X	X	X	X	X	X	
Hungary	X	X	X	X	X	X	X	
Iceland	X	X	X	X	X	X	X	
India	X	X	X	X	X	X	X	
Indonesia	X	X	X	X	X	X	X	
Iran	X	X	X	X	X	X	X	
Iraq	X	X	X	X	X	X	X	
Ireland	X	X	X	X	X	X	X	
Israel	X	X	X	X	X	X	X	
Italy	X	X	X	X	X	X	X	
Ivory Coast	X	X	X	X	X	X	X	
Jamaica	X	X	X	X	X	X	X	
Japan	X	X	X	X	X	X	X	
Jordan	X	X	X	X	X	X	X	
Kampuchea ¹	X	X	X	X	X	X	X	
Kenya	X	X	X	X	X	X	X	
Kiribati ¹	X	X	X	X	X	X	X	
Korea, Democratic								
People's Republic								
Korea, Republic	X	X	X	X	X	X	X	
Kuwait	X	X	X	X	X	X	X	
Laos	X	X	X	X	X	X	X	

	UN	IBRD	IDA	IFC	IMF	FAO ^a	IFAD ^b	GATT
Lebanon	X	X	X	X	X	X	X	
Lesotho ¹	X	X	X	X	X	X	X	
Liberia	X	X	X	X	X	X	X	
Libya	X	X	X	X	X	X	X	
Liechtenstein	X	X	X	X	X	X	X	
Luxembourg	X	X	X	X	X	X	X	
Madagascar	X	X	X	X	X	X	X	
Malawi	X	X	X	X	X	X	X	
Malaysia	X	X	X	X	X	X	X	
Maldives ¹	X	X	X	X	X	X	X	
Mali ¹	X	X	X	X	X	X	X	
Malta	X	X	X	X	X	X	X	
Mauritania	X	X	X	X	X	X	X	
Mauritius	X	X	X	X	X	X	X	
Mexico	X	X	X	X	X	X	X	
Monaco	X	X	X	X	X	X	X	
Mongolia	X	X	X	X	X	X	X	
Morocco	X	X	X	X	X	X	X	
Mozambique ¹	X	X	X	X	X	X	X	
Nauru	X	X	X	X	X	X	X	
Nepal	X	X	X	X	X	X	X	
Netherlands	X	X	X	X	X	X	X	
New Zealand	X	X	X	X	X	X	X	
Nicaragua	X	X	X	X	X	X	X	
Niger	X	X	X	X	X	X	X	
Nigeria	X	X	X	X	X	X	X	
Norway	X	X	X	X	X	X	X	
Oman	X	X	X	X	X	X	X	
Pakistan	X	X	X	X	X	X	X	
Panama	X	X	X	X	X	X	X	
Papua New Guinea ¹	X	X	X	X	X	X	X	
Paraguay	X	X	X	X	X	X	X	
Peru	X	X	X	X	X	X	X	
Philippines	X	X	X	X	X	X	X	
Poland	X	X	X	X	X	X	X	
Portugal	X	X	X	X	X	X	X	
Qatar ¹	X	X	X	X	X	X	X	
Romania	X	X	X	X	X	X	X	
Rwanda	X	X	X	X	X	X	X	
Saint Lucia ¹	X	X	X	X	X	X	X	
Saint Vincent and the Grenadines ¹	X	X	X	X	X	X	X	
Sau Marino	X	X	X	X	X	X	X	
São Tomé and Príncipe ¹	X	X	X	X	X	X	X	
Saudi Arabia	X	X	X	X	X	X	X	
Senegal	X	X	X	X	X	X	X	
Seychelles ¹	X	X	X	X	X	X	X	
Sierra Leone	X	X	X	X	X	X	X	
Singapore	X	X	X	X	X	X	X	
Solomon Islands ¹	X	X	X	X	X	X	X	
Somalia	X	X	X	X	X	X	X	
South Africa ¹	X	X	X	X	X	X	X	
Spain	X	X	X	X	X	X	X	
Sri Lanka	X	X	X	X	X	X	X	
Sudan	X	X	X	X	X	X	X	
Suriname	X	X	X	X	X	X	X	
Swaziland ¹	X	X	X	X	X	X	X	
Sweden	X	X	X	X	X	X	X	
Switzerland	X	X	X	X	X	X	X	
Syria	X	X	X	X	X	X	X	
Tanzania	X	X	X	X	X	X	X	
Thailand	X	X	X	X	X	X	X	
Togo	X	X	X	X	X	X	X	
Tonga ¹	X	X	X	X	X	X	X	
Trinidad and Tobago	X	X	X	X	X	X	X	
Tunisia ¹	X	X	X	X	X	X	X	
Turkey	X	X	X	X	X	X	X	
Tuvalu ¹	X	X	X	X	X	X	X	
Uganda	X	X	X	X	X	X	X	
Ukrainian S.S.R.	X	X	X	X	X	X	X	
U.S.S.R.	X	X	X	X	X	X	X	
United Arab Emirates ¹	X	X	X	X	X	X	X	
United Kingdom	X	X	X	X	X	X	X	
U.S.A.	X	X	X	X	X	X	X	
Upper Volta	X	X	X	X	X	X	X	
Uruguay	X	X	X	X	X	X	X	
Vatican City	X	X	X	X	X	X	X	
Venezuela	X	X	X	X	X	X	X	
Viet-Nam ¹	X	X	X	X	X	X	X	
Western Samoa	X	X	X	X	X	X	X	
Yemen Arab Republic	X	X	X	X	X	X	X	
Yemen, People's Demo- cratic Republic ¹	X	X	X	X	X	X	X	
Yugoslavia	X	X	X	X	X	X	X	
Zaire	X	X	X	X	X	X	X	
Zambia ¹	X	X	X	X	X	X	X	
Zimbabwe	X	X	X	X	X	X	X	