

U.S. Trade Policy: Executive Summary/Highlights

This paper discusses U.S. trade policy, key trade issues affecting LDCs, and implications for A.I.D.

A. U.S. Trade Policy Agenda

Throughout the postwar period, the United States has played a consistent leadership role in fostering free trade and global open markets. The Economic Report of the President and the President's 1992 Trade Policy Agenda both underscore the benefits of open trade. In the latter, U.S. Trade Representative Hills states: "By opening markets and allowing trade to expand according to free choice, not government intervention, we can guarantee economic success, long-term growth, and more and better jobs for the citizens of the United States." The Agenda reiterates the Administration's three-pronged trade strategy: (1) Successful conclusion of the Uruguay Round of GATT trade talks; (2) Broad-based market-opening negotiations (such as the North American Free Trade Agreement talks) with key trading partners; and (3) Application of U.S. trade laws.

Some observers see a trend away from multilateral solutions in U.S. trade policy. They say protectionist U.S. actions are on the rise and express concern that hemispheric free-trade talks are gaining greater importance for the U.S. than multilateral arrangements. The Administration responds that conclusion of the GATT talks remains the number-one goal of U.S. policy, which other U.S. regional and bilateral actions support.

1. Multilateral Trade Negotiations. The Uruguay Round of multilateral trade negotiations was launched in September 1986 at the strong urging of the United States. These talks have been snagged for over a year primarily due to disagreements over EC farm subsidies. If ultimately successful, the Uruguay Round will achieve important results by: (1) Lowering tariffs further and reducing non-tariff barriers; (2) liberalizing barriers to world agricultural trade; (3) extending GATT coverage to services, trade-related investment, and intellectual property rights protection; (4) liberalizing trade in textiles and clothing by phasing out the Multifiber Arrangement (MFA); and (5) strengthening GATT rules on dispute settlement, safeguards, and other enforcement mechanisms. A new trade organization with expanded responsibilities, the Multilateral Trading Organization (MTO), would be created.

2. North American Free Trade Agreement (NAFTA) and Enterprise for the Americas Initiative (EAI). NAFTA negotiations aim to progressively eliminate barriers to trade and investment, strengthen protection of intellectual property rights and establish dispute settlement mechanisms among the U.S., Canada and Mexico. The ultimate goal of the EAI, a comprehensive economic relationship between the U.S. and other countries of this hemisphere, is a hemispheric free-trade system.

3. Implementation of U.S. Trade Laws. Key provisions of U.S. trade law include: (1) the **Generalized System of Preferences (GSP)**, a bilateral system of temporary duty-free tariff preferences for selected developing countries which extends through July 4, 1993; (2) the **Multifiber Arrangement (MFA)**, which regulates most U.S. textile and apparel imports through bilateral quota arrangements and which will be phased out over ten years if the Uruguay Round is successfully concluded; (3) **Section 301** of the Trade Act of 1988, "super 301" providing for U.S. retaliation against priority countries with egregious trade barriers, and "special 301" requiring identification of countries denying adequate intellectual property protection; (4) **Anti-dumping (AD) and countervailing duties (CVD)** laws enabling domestic industries to petition for the imposition of duties against imports to the U.S. which are judged to benefit from unfair pricing or subsidies.

B. Implications of U.S. and Multilateral Trade Policy for LDCs

Whether or not the Uruguay Round succeeds, the greater integration of LDCs into world trading rules, increased differentiation among LDCs in trade treatment, and LDCs' increasing sophistication in trade negotiations are new and permanent trends.

1. Recent LDC Involvement in International Trade Policy. In the Uruguay Round, LDC trade practices have been central to discussions of intellectual property rights, investment and services, and the LDC stake in liberalized agricultural and textiles trade and broad market access has also been clear. There is a trend away from according LDCs the "special and differential treatment" which they have been accorded in a number of areas. Also notable has been some LDCs' active and organized participation in the GATT negotiations. If the GATT talks fail, some fear a move toward protectionist trading blocs centered on the U.S., Europe and Japan. For LDCs this would be disastrous -- especially, though not exclusively, for those excluded from any of the three orbits.

2. Areas of Potentially Growing Concern for LDCs. Some issues on the immediate horizon which will affect certain groups of developing countries are: (1) **Intellectual Property Rights (IPR).** Setting minimum standards of copyright and patent protection is an issue which the U.S. and other developed countries have introduced into GATT and bilateral negotiations, with a view toward such LDCs as Thailand, India, and Indonesia. (2) **GSP.** Despite the trend against preferential trade arrangements, GSP will continue in some form for the foreseeable future. The 1993 renewal will present opportunities for revising the program. (3) **301 and anti-dumping/countervailing duties.** With the potential for further U.S. 301 legislation and the fact that certain LDCs are increasingly targeted, these and similar U.S. trade laws assume significance in the development context. (4) **Trade and environment.** A new set of issues has emerged concerning the use of trade measures to achieve environmental objectives and compatibility/conflict in trade and environmental agreements. How to handle the costs and complexities involved for LDCs is a major factor in discussions. (5) **LDC**

integration into the world trading regime. Special treatment for LDCs, country reviews under the new GATT Trade Policy Review Mechanism, and the potential for inter-LDC trade will all arise in the context of heightened LDC sophistication on trade issues.

C. Implications for A.I.D.

U.S. trade policy remains centered on free trade and open markets, while LDCs are increasingly recognize their own stake in opening up markets and lowering barriers. The need for A.I.D. to help LDCs continue integrating themselves into world trade, in line with Administration trade policy, raises legitimate questions for A.I.D. operations. These include: what types of A.I.D. programs would be most supportive of such LDC integration; the appropriateness of export subsidies; whether A.I.D.'s programs should incorporate controversial facets of U.S. trade policy such as intellectual property rights protection; whether A.I.D. should participate more actively in the making of U.S. trade policy; and how A.I.D. can help support LDC trading relationships with the U.S. in the post-Uruguay Round, post-NAFTA era.

U.S. TRADE POLICY

The purpose of this paper is to present the contours of current U.S. trade policy, examine key trade issues affecting LDCs, and raise some implications for A.I.D.

A. U.S. Trade Policy Agenda

Throughout the postwar period, the United States has played a consistent leadership role in fostering free trade and global open markets. Under U.S. impetus, average industrial-country tariffs on manufactured goods have declined from over 40% in 1947 to around 5% currently. In pressuring other countries to begin the Uruguay Round of multilateral trade negotiations in 1986, the U.S. explicitly sought to expand world trading rules to include sectors not previously covered such as agricultural and services trade, and to address non-tariff barriers to trade now that significant progress had already been made on tariffs. The U.S. has continued to pursue the extension of world trading rules throughout the GATT (General Agreement on Tariffs and Trade) talks.

Consistently throughout recent years and again in 1992, the Economic Report of the President has underscored the benefits of open trade. In the transmittal letter accompanying the 1991 version of this report, President Bush affirmed that "my Administration will continue to push aggressively for open markets in all nations, including our own, and will continue to oppose protectionism...Government attempts to overrule the decisions of the international marketplace and to manage trade or investment flows inevitably reduce economic flexibility and lower living standards." In spite of claims that the President's recent trip to Japan signaled a fundamental shift in Administration policy in favor of managed trade, the February 1992 Economic Report of the President forcefully reaffirmed the commitment to free trade: "Retreating from a focus on open international markets now would undermine opportunities to promote a growing and efficient world economy."

The Office of the U.S. Trade Representative (USTR) has the lead role in developing U.S. policy on trade and trade-related investment. At the end of February, it issued the President's 1992 Trade Policy Agenda, the authoritative statement of current U.S. trade policy. USTR Carla Hills introduces this report with the following characterization of the Administration's trade philosophy: "[U.S.] policy is to ensure that foreign markets that are open stay open, and markets that are closed are made accessible to competitive U.S. exporters and investors. By opening markets and allowing trade to expand according to free choice, not government intervention, we can guarantee economic success, long-term growth, and more and better jobs for the citizens of the United States."

4/

Hills goes on to take issue with "those who, now that the Cold War is over and won, want to devote our energies to a trade war. But trade policy is not a martial art. In fact, unlike military conflict, sensible trade policy should make all participating nations better off." The report later elaborates this point: "Because each country's efficiency gains [from trade liberalization] come not at the expense of, but in conjunction with other countries' gains, trade liberalization is often characterized as a 'positive-sum endeavor' in which all participants can be winners."

The Agenda reiterates the three-pronged trade strategy pursued by the Administration:

- Working to achieve a successful conclusion of the Uruguay Round of multilateral trade talks in the GATT;
- Launching broad-based market-opening negotiations (such as the North American Free Trade Area -- NAFTA -- talks) with key trading partners; and
- Opening up specific sectors in foreign markets through application of U.S. trade laws.

At the same time, some U.S. trading partners and other observers see an increased tendency away from multilateral solutions in U.S. trade policy. The GATT itself, in its March 1992 review of U.S. trade policy, cites these growing concerns. It says that bilateral U.S. actions or the threat thereof, in the form of countervailing duty and anti-dumping suits and "301" actions (described in greater detail below), are on the ascendant, and also indicates that tariffs remain high on a selected group of products even though U.S. tariffs overall are extremely low. It also reflects the concern that hemispheric free-trade talks are gaining greater importance than multilateral arrangements for the U.S.

The Administration's response to such concerns is that conclusion of GATT talks remains the number-one goal of U.S. policy, that regional free-trade talks are calculated to support worldwide free trade, and that bilateral action is required as a reasonable deterrent in a world where trade barriers and subsidies remain a fact of life.

1. Multilateral Trade Negotiations

The current round of multilateral trade negotiations in the GATT was launched in September 1986 at the strong urging of the United States. The Uruguay Round was scheduled to be concluded by December 1990; however, talks have been snagged for well over a year primarily due to serious disagreements over EC farm subsidies. The inability of negotiators to reach agreement obliged Director-General Dunkel to table his own draft "final act" for consideration

by negotiators in December. This has been accepted as the basis for final discussions which are scheduled to conclude by mid-April in principle, but which may in fact run substantially longer. The primary stumbling-block to an agreement continues to be agricultural trade.

The Uruguay Round discussions have been ambitious, aimed at broadening trade liberalization beyond the successful tariff reductions achieved in earlier rounds and including some of the more than \$1 trillion in trade which has hitherto fallen outside the GATT. If successful, the Uruguay Round will achieve important results by:

- broadening market access through further tariff reductions and reduction of non-tariff barriers;
- liberalizing barriers to world trade in agriculture;
- extending GATT coverage to trade in services, trade-related intellectual property rights, and trade-related investment measures;
- liberalizing trade in textiles and clothing by phasing out the Multifiber Arrangement (MFA); and
- strengthening GATT rules on dispute settlement, safeguards, and other enforcement mechanisms.

A new organization, the Multilateral Trading Organization (MTO), would embrace the GATT as well as a new General Agreement on Trade in Services (GATS), administer a new agreement on intellectual property rights (IPR), and conduct reviews of countries' trade policies under the Trade Policy Review Mechanism (TPRM).

Although the GATT is the primary international forum for decisions on international trade issues, multilateral discussions also take place in other bodies. The OECD is the primary forum for discussion of economic issues facing developed countries, and its Trade Committee is frequently used for developing a consensus in this smaller group for negotiating positions in the GATT. One of the most crucial trade issues of the 1990s, namely the interaction between trade and environmental policies, is now under discussion in the OECD. UNCTAD, having served for a long time as a forum for North-South rhetoric, showed a healthy willingness at the UNCTAD VIII conference in February to take on a more constructive and technical future role.

2. North American Free Trade Agreement (NAFTA) and Enterprise for the Americas Initiative (EAI)

Since June of last year, three-way discussions have been under way among the U.S., Canada and Mexico for the formation of a North

American Free Trade Area, which would encompass 360 million people with total production of over \$6 trillion. The NAFTA would provide for progressive elimination of barriers to trade in goods and services and to investment, as well as for the protection of intellectual property rights and establishment of a dispute settlement mechanism. Negotiations are progressing well, and the Administration is expected to present "fast-track" legislation to the Congress sometime this year. However, over the course of the negotiations, some labor and, especially, environmental groups have expressed increasingly vocal opposition to the NAFTA, and these are factors the Administration is taking seriously in negotiating the NAFTA's provisions.

The EAI, a new economic relationship with Latin America announced by the President in June 1990, comprises three pillars -- trade, investment, and debt reduction. The ultimate goal of the trade pillar, which will take years to reach fruition, is a hemispheric free-trade system. To begin the process leading to this goal, the United States has already signed trade and investment framework agreements with many countries and groups of countries which have taken appropriate initial steps to liberalize their trade regimes.

3. Implementation of U.S. Trade Laws

Provisions of U.S. trade law aim at protecting U.S. producers against unfair or disruptive trade practices or, in the case of the GSP, providing special trade preferences to developing countries. Some of the key provisions of U.S. trade law affecting LDCs include:

- **Generalized System of Preferences (GSP).** Instituted in conjunction with 19 other OECD countries in the early 1970s, the GSP is a bilateral system of temporary duty-free tariff preferences for selected developing countries. Eligible countries and products are reviewed on an annual basis, with periodic special reviews. Reviews include discussion of beneficiary countries' trade barriers, intellectual property protection, worker rights, and other related issues. As part of the Trade Enhancement Initiative, a Special GSP Review for Central and Eastern Europe is under way, with decisions to be announced in April. The current GSP program extends through July 4, 1993.
- **Multifiber Arrangement (MFA).** The MFA regulates most U.S. textile and apparel imports, under a 1974 multilateral agreement permitting an exception to normal GATT rules. Under the MFA, the U.S. negotiates bilateral quota arrangements with significant textile exporters -- almost all of them LDCs -- to avoid disruption to the domestic textile industry. As indicated above, if the Uruguay Round is successfully concluded it will provide for a ten-year phaseout of the MFA agreement to bring it into line with GATT codes.

- **Section 301.** Section 301 of the 1974 trade act provides for U.S. retaliation against discriminatory foreign practices that restrict U.S. trade. Under the Omnibus Trade and Competitiveness Act of 1988, "super 301" and "special 301," respectively, provided deadlines for U.S. retaliation against priority countries with egregious trade barriers and required identification of countries denying adequate intellectual property protection. Countries that have been targeted by 301 investigations have included India, Thailand, Brazil and China. Dispute settlement provisions which may emerge from the Uruguay Round could somewhat curtail the use of unilateral 301-type measures, but some in Congress would like to strengthen these provisions instead.
- **Anti-dumping (AD) and countervailing duties (CVD).** These laws enable domestic industries to petition for the imposition of duties against imports to the U.S. which are judged to benefit from unfair pricing or foreign subsidies. Jointly administered by Commerce and the International Trade Commission, both procedures have been used increasingly by U.S. industries in recent years. Some detect a strengthened protectionist trend in U.S. implementation of these laws.

B. Implications of U.S. and Multilateral Trade Policy for LDCs

Unlike prior GATT negotiations, bringing LDCs into the mainstream of international trade has been an explicit objective of the Uruguay Round. The tendency to single out LDCs for special treatment has begun to reverse, with discriminatory trade practices by LDCs receiving explicit attention. The developing countries themselves, individually and as a group, have played a more active and visible role than ever before in the GATT talks. Whether or not the Uruguay Round itself succeeds, the greater integration of LDCs into world trading rules and LDCs' increasing sophistication in trade negotiations are new and permanent trends.

1. Recent LDC Involvement in International Trade Policy

The Uruguay Round has been noteworthy for its expansion to include new sectors and practices hitherto not addressed by the GATT. One of the explicit implications of this has been to move beyond developed-country trade practices and integrate LDCs into the discussions. LDC trade practices have been central to discussions of intellectual property rights, investment and services, and the LDCs' stake in the outcome of discussions on agriculture, textiles, and broad market access has also been clear. In addition, there is at least an intellectual trend away from according LDCs the "special and differential treatment" which they have been accorded in a number of areas. Many middle-income LDCs are beginning to take the view that such special treatment is less desirable than global agreements affecting products in which they trade.

Also notable has been some LDCs' active and organized participation in the GATT negotiations. Brazil and India initially held up the start of the Uruguay Round discussions due to their opposition to consideration of IPR and services, and they have continued to actively defend their interests in these areas throughout the Round. More constructively, a number of developing countries -- including Indonesia, the Philippines, and Thailand -- have banded together with developed countries in the Cairns Group, a coalition in favor of agricultural liberalization. In this and other negotiating contexts, Indonesia has played a very constructive role in the Uruguay Round. In negotiations on textiles, a group including several Latin American and Asian countries, as well as Egypt and Yugoslavia, advanced the proposal for phasing out the MFA which is now on the table.

According to a recent study by the British Overseas Development Institute, Asia would benefit most from the Uruguay Round, followed by Latin America. African and Caribbean countries would gain less because they stand to lose some of the preferential treatment already accorded them. Not surprisingly, the countries which would gain most are those which have been most active in the talks.

At this time, Uruguay Round discussions are continuing toward a hoped-for positive outcome. However, some fear that if the GATT talks fail, the result will not be the status quo, but rather a move toward protectionist trading blocs centered on the U.S., Europe and Japan. For LDCs, which have benefited from the progressive liberalization of world trade in the postwar era and stand to benefit even more significantly in future, this would be disastrous -- especially, though not exclusively, for those excluded from any of the three orbits.

2. Areas of Potentially Growing Concern for LDCs

Whatever the outcome of the Uruguay Round negotiations, one clear result is that LDCs are now more a part of the world trading system than ever before. They will also increasingly be acting, and be expected to act, with greater sophistication in dealing with such issues, and there will be a more differentiated, less rigidly North-South cast, to trade discussions. Some issues on the immediate horizon which will affect certain groups of developing countries are:

- **Intellectual Property Rights (IPR).** Setting minimum standards of copyright and patent protection is an issue which the U.S. and other developed countries have introduced into GATT and bilateral negotiations. LDCs, including Thailand, India, and Indonesia, have been the main target. Questions have been raised as to whether the deterrent to investment of not protecting intellectual property really outweighs the additional costs which IPR protection requires. However, beyond this theoretical question it is clear that this issue

has become a mainstay of international trade policy and that retaliatory costs will be real for those who ignore it.

- **GSP.** These tariff preferences cover about 3000 classifications of goods imported from 140 beneficiary countries. Despite the secular trend against such preferential arrangements, GSP will continue in some form for the foreseeable future, and renewal of the U.S. GSP in 1993 will present opportunities for revising the program. Mexico is currently the most significant beneficiary, but these benefits will likely be phased out as the NAFTA comes into effect. A number of East European countries have just obtained or are in the process of obtaining GSP status. This, along with questions about whether countries have been graduated rapidly enough from GSP, raises questions about whether countries in greatest need stand to benefit the most from these preferences.
- **301 and anti-dumping/countervailing duties.** With the potential for further U.S. 301 legislation and the fact that certain LDCs are increasingly targeted, these and similar U.S. trade laws assume significance in the development context. While most actual cases have been brought against middle-income countries such as Thailand and Brazil, Anne Krueger argues that these laws may have a deterrent effect on poor countries just opening up to trade with the U.S. and other developed countries.
- **Trade and environment.** A powerful new set of issues has emerged in the past year over the use of trade measures to achieve environmental objectives and compatibility/conflict in trade and environmental agreements. The OECD, World Bank and GATT are all examining aspects of these issues. Determining how to handle the costs and complexities involved for LDCs in these issues is a major factor in discussions. As pointed out above, environmental issues have also emerged in relation to the NAFTA negotiations.
- **LDC integration into the world trading regime.** A common thread throughout this paper has been the recently heightened LDC awareness of their own interests in moving more into the mainstream of international trade. As many middle-income countries remove themselves from various forms of "special and differential treatment," the question will increasingly arise as to which types of special treatment remain appropriate, and according to what criteria. Country reviews under the new GATT Trade Policy Review Mechanism will present new opportunities for examining national trade regimes. In addition, in looking for new markets for their products, LDCs are likely to be looking more and more to each other, and to the potential for regional trading arrangements.

C. Implications for A.I.D.

Despite pressures from certain industries for increased protectionism, U.S. trade policy remains centered on free trade and open markets. This translates into high priority for lowering tariff and non-tariff barriers on multilateral, regional and bilateral trade. LDCs, for their part, are recognizing increasingly their own stake in opening up their markets and lowering barriers as others do the same through equitable international arrangements.

Some missions, and some parts of A.I.D/W, are already experimenting with responses to these new conditions, but the Agency as a whole has not grappled with these issues and tried to map a unified approach. The need for A.I.D. to help LDCs continue to integrate themselves into world trade, in line with Administration trade policy, raises legitimate questions for A.I.D. operations:

- In light of U.S. trade policy, what types of A.I.D. programs seem likely to provide the most appropriate support for LDC integration into world trade?
- What are the implications of U.S. trade policy for A.I.D. decisions about whether to help subsidize LDC exports? U.S. exports?
- Should A.I.D. be incorporating into its programs some of the less developmentally motivated facets of U.S. trade policy, such as intellectual property rights protection?
- Should A.I.D. as an institution seek to influence the contours of U.S. trade policy as it affects developing countries?
- Looking beyond the Uruguay Round and the NAFTA agreement, what types of LDC trading relationships (with the U.S. and with each other) should the U.S. try to foster? How can A.I.D. help?