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BACKGROUND PAPER: COMPETITIVE ASSESSMENT AND STRATEGIC TRADE

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STRATEGIC TRADE POLICY

Much recent attention in public debate over American trade policy has been given to reorganization of the Executive Branch to deal more effectively with trade. However, the problem is less a matter of organization than it is an absence of a coherent American trade strategy.

Trade issues are mainly dealt with in Washington in response to complaints from individual industries and farm and labor groups or in response to specific conflicts with other nations. The main emphasis in trade policy is on resolving specific import problems, rather than on promoting exports or on improving overall competitiveness.

U.S. policy-making, being primarily driven by complaints, is based upon adversary proceedings between government and industry. Close public-private cooperation in building overseas markets is difficult, and when it occurs, is often criticized ("favoritism"). There has been a proliferation of business and agricultural advisory committees, created by Federal agencies and sometimes by the President, but no attempt is made to pull together from all of them some national priorities for public-private cooperation. There are no clear objectives (either geographic, or by industrial or agricultural sector) in government trade-related activities. Agencies coordinate very little, except when the White House has critical short-term interests in a particular country or group of countries (e.g., Egypt, Caribbean Basin).

Inconsistencies in policies and mutually conflicting practices are common, rather than exceptional. The regulatory laws and practices generally act as impediments to trade rather than supportive of international commerce.

Absence of strategy and continuous stop-go or zig-zag courses of action tend to discourage private business efforts to expand exports, and to encourage overseas production and R&D where possible and economically sound.

There is no concerted official effort in the U.S. to develop long-term trade, investment, and other commercial ties on a regional or country basis. (In contrast, the French make major efforts to strengthen and expand commercial relations with Francophone Africa and with the Middle East, in cases where there are historical ties; while the Japanese concentrate the major part of trade and aid efforts on Asian-Pacific countries, and Brazil and Mexico, where long-term growth prospects appear strongest.)

While the U.S. wants greater world reliance on freer markets and on expansion of private sector activities, its trade policies are not consistently geared to these objectives. Achievement of these objectives requires development of long-term trade and investment ties and increased interweaving of other national economies with our own. Development of ongoing, self-sustaining commercial ties requires both public and private effort.

International negotiations are often used by the U.S. Government to solve both short and long-term problems, but negotiations usually take years. By the time they are concluded, the old problems which prompted action have been overtaken by new problems. The barn door is shut after the horses have run away. In inter-agency deliberations there is little policy vision about the issues of global competitiveness of next year and the year after.

Trade policies of our major competitors tend to take a longer term perspective, and are more closely related to domestic industrial, agricultural, and employment strategies. This is primarily because for many years trade represented a far bigger proportion of domestic economic activity in those nations than was true in the U.S.

However, the role of trade in the American economy has grown dramatically in the last decade or so. The share of exports or imports in GNP has more than doubled since 1970, to almost 10 percent. More important, setting aside services, exported goods now represent about a quarter of the production of goods in our farms and factories. That share has more than doubled since 1970. Yet we still act as if trade is a minor aspect of our economic well-being; and we still concentrate policy attention on import problems rather than on export generation.

GROWING GLOBAL COMPETITION

In world trade competition, America faces intensifying competition in most industrial and agricultural sectors.

--- more competitors from LDC's are entering world markets

--- more rapid global technological transfer is intensifying world competition even in high-technology areas

--- increased official emphasis in most governments is being placed on protection and subsidization of old, inefficient industries, controlling and assisting development of new industries, and shielding domestic industrial and agricultural policies from import competition

--- governments are directly entering competition through state-trading activities and requirements for countertrade

--- financial institutions are pushing governments of debtor countries to export more and import less

With governments in virtually every nation trying to promote exports and limit or control imports, the result is limitation and distortion of world trade and the pattern of world investment.

EMERGENCE OF DEVELOPING COUNTRY MARKETS

Where are the major growth markets for trade?

Over half of total Japanese exports have recently gone to developing countries; about 40 percent of U.S. exports; and between a third and 40 percent of EEC exports (excluding internal EEC trade) are aimed at developing country markets. Trade between developing countries is also growing rapidly. These markets have proven to be the fastest growth markets for world trade in recent years.

However, sales to most of such countries are dependent on financing from the highly industrialized nations. In the recent foreign debt crisis, imports into debtor countries have been severely constrained by limitations on availability of private lending and public sources of finance.

Because of the vital importance of LDC markets, most governments have been increasing their official efforts to assist or promote exports to LDC's. (Even the LDC's are doing this.)

--- Official financing of trade is being expanded in most countries. In 1981, the percentage of total exports supported by official finance was 9.1 percent in West Germany, 26.6 percent in France, 32.4 percent in the UK, and 37.1 percent in Japan. The comparable U.S. figure was 5.8 percent.

--- The European, Canadian, and Japanese governments often assist major export sales, especially of turnkey projects, by blending soft credits (foreign aid funds), export credits, and government guarantees and insurance of commercial credits, so as to achieve "real" commercial terms that are exceptionally favorable.

--- To avoid international criticism, such blending is sometimes carried out through parallel arrangements that are seemingly unrelated, such as provision of bilateral aid funds for general purposes in parallel with, but not formally linked to, agreement on specific turnkey projects to be built by, and supplied by, companies in the aid donor countries.

--- Favorable tariff preferences may be offered on imports from countries that make substantial purchases (the preferences are separately negotiated, but in fact are linked to ongoing bilateral business).

--- Government agencies often coordinate private selling efforts, so that coordinated, integrated bids are made for major projects.

--- Private, commercial bank support is often guided or even dictated by government agencies. (France is the most explicit example, when banks are accustomed to supporting government-led export efforts.)

--- Ministers and officials often bring selected private contractors on foreign visits, so as to promote national sales, especially of major projects.

--- Countertrade and barter agreements are sometimes negotiated by governments to support private sales of turnkey projects.

--- Military and non-military assistance are often interlinked so as to maximize sales in both areas.

--- Extensive technical support is often provided by governments to assist in designing and carrying out projects that are supplied and built by private contractors from the country which is providing the technical and financial help.

U.S. STRATEGIC RESPONSES

The reality of world trade competition is that governments intervene heavily, and this intervention is growing on both the import and export side. Almost half of world imports are now "managed" through nontariff measures, and the degree of

protectionism is growing virtually everywhere.

If the U.S. is to achieve its global objectives of expanding private enterprise activity and freer markets, and of impregnating other nations with economic and social philosophies based on liberal markets, then a strategy must be developed to counteract the present worldwide trend towards greater government intervention in and management of trade, investment, and national economic development.

This requires a fundamental shift from policies that are driven by short-run problems and complaints from specific companies to a broad policy approach that anticipates government actions in other nations.

It requires harnessing private and public efforts, so that the government supports, and gives leverage to private business.

It requires close coordination of all the instruments of policy that the government has, in a strategic framework of mutually consistent objectives.

For example, all credit and development assistance activities, including those of Eximbank, OPIC, CCC, Food Aid, and military assistance should be subject to common guidelines. Treasury efforts in debt rescheduling should also be brought within this framework. Such guidelines should reflect country and regional priorities. They should reflect sectoral priorities in foreign markets.

The stop-go character of export policies (especially in connection with export controls) should be firmly displaced by new policies of a steady, predictable character.

Emphasis in foreign trade policy should be on establishment of long-term economic linkages with other nations, with particular stress on economies that are guided by economic principles that we are seeking to establish.

In essence, we need an overall strategy so that present levels of government spending in support of trade achieve "more bang for the buck;" so that agency policies become mutually supportive rather than conflicting (and often mutually negating); so that other trade policies (import protection, tariff preferences, etc.) are carried out in a manner consistent with long-term U.S. goals; and so that trade, which has become a vital element of national economic well-being, can flourish.

In such a framework, the role of private enterprise is likely to expand as well. To assure that this happens, an ongoing public-private advisory system is needed that provides better knowledge to the government about the consequences of its aid and trade policies. (The role of the private sector advisory committee system presently advising the USTR and the President might be expanded and reoriented for this purpose.)

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