The U.S. and International Trade Cooperation

By Stephen D. Cohen

The United States is probably the only industrial country that can best contribute to the preservation of the liberal international trading order by slowing its growth rate for imports and accelerating its growth rate for exports. The cumulative U.S. trade deficit for 1984 and 1985 was well in excess of one quarter of a trillion dollars. Not even the world's largest national economy can allow such deficits to continue indefinitely. Not even the country with the world's major currency can ignore the large foreign debts being accumulated to finance the persistent trade imbalance. Failure to reduce the unsustainably large U.S. trade deficits will increase the risk of major international economic dislocations in the future.

Adjustments must be made for both political and economic reasons. The nature of these adjustments will have a profound impact on the course of the global economy in general and the international trading system in particular. It is of great importance that efforts to reduce the U.S. trade deficit be taken on a constructive, multilateral basis rather than on a shortsighted, unilateral basis. The rest of the world has used the rising American appetite for imports as the most important single "engine of growth" in the world economy for the past three years. Other countries must accept the fact that this trend cannot continue indefinitely. And they should be sympathetic to legitimate American complaints about inequities in foreign trade practices.

American economic values continue to emphasize the net benefits of a relatively free flow of international commerce. By any objective measure, the U.S. government has been remarkably restrained in the face of stagnant exports and an increase in imports of almost $100 billion dollars from 1983 to 1985. Since talk of protectionism has not been translated into restrictive action, the suggestion that the U.S. has become protectionist is at odds with the facts.

The really important issue is what policies need to be adopted by the U.S. government and what actions need to be taken by the private sector to minimize the chances that calls for protectionist trade actions will be implemented as policy. Most policymakers in Washington still do not believe either that the American economy will receive lasting benefits from restricting imports or that import restrictions are the most effective way of restoring American international competitiveness. However, if there is not a quick increase in expectations for an improved U.S. trade performance, there will be a dangerous erosion in support for the continuation of a liberal trade policy.


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Executive and legislative split

One of the most important means of preventing a backslide into protectionism in the United States is for the President to maintain respect for a congressional consensus that American trade policy in mid-1985 was out of touch with reality. A growing number of members of Congress came to feel that the Reagan Administration's approach to trade relations had become unacceptably tolerant of unfair foreign import and export practices, as well as excessively indifferent to the growing injuries being inflicted on domestic companies and workers by rising imports. There is an exaggerated perception that the U.S. Congress is highly protectionist in order to please constituents. In fact, Congress has spent the past 55 years trying to correct the mistake it made in 1930, when it passed the highest tariffs in American history. Foreign retaliation followed, and most people agree that the trade wars of the 1930s deepened and prolonged the worldwide depression.

However, no democratically elected legislative body could have been expected to be indifferent to the many negative economic consequences of the seemingly endless upward spiral in the U.S. trade deficit. By loudly threatening throughout most of 1985 to reverse the American preference for a liberal trade policy, Congress was sending a message that was quite clear to students of U.S. trade policy formulation: the gap between executive and legislative branch perceptions of the national interest was getting too wide. If the President did not better respond to the country's growing trade problems, Congress would force him to do so through new legislation.

The initiatives taken by the Reagan Administration in September 1985 were very clever and very effective. The Reagan Administration adopted a more aggressive—but not protectionist—trade policy and adopted (along with four other countries) a more aggressive exchange rate policy that induced a depreciation in the overvalued exchange rate of the dollar. The result is that for the time being, President Reagan has effectively eliminated the possibility that Congress would be able to override his veto of a protectionist trade bill.

The Reagan Administration has acted very responsibly thus far, but much more needs to be done to assure that a gradual adjustment in the overly large American trade deficit is brought about. It is imperative that more action be taken to discourage other countries from employing unfair trade practices such as dumping and subsidies to increase their sales in the U.S. market. Countries must be better encouraged to remove overt and covert barriers to exports of goods and

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U.S. industry is being urged to increase competitiveness.

services in which the United States has a comparative advantage. Prime Minister Nakasone summed it up well in a U.S. newspaper interview. He said that Japan prefers President Reagan's more aggressive trade efforts to "the Congress's trade protectionism."

It would be useful for Congress to strengthen the President's negotiating leverage by passing new trade legislation that gives him increased discretionary authority to retaliate against import barriers and unfair foreign trade practices, as well as subsidized export credits by foreign governments. The U.S. government should continue pressing for the initiation of a new round of multilateral trade negotiations that would introduce services as a major agenda item. As the American economy continues along the path to a services economy, it will become increasingly dependent on services exports relative to exports of manufactures to pay its way in the world economy. The United States cannot afford to accept existing levels of restraints on the global flow of services trade.

Develop trade orientation

Further progress is necessary on a purely internal matter: additional reductions in the federal budget deficit. Whereas a too rapid reduction in the deficit could trigger a recession in the U.S. economy, a gradual reduction will reduce the level of government use of private savings and probably reduce the unusually high level of real interest rates. Such a reduction would also contribute to a further dollar depreciation, especially against the European and Canadian currencies. More importantly, a reduction in the budget deficit would reduce the United States' need for rising imports. A trade deficit is the means by which the United States has been able to consume beyond levels supported by inadequate savings and excessive net government spending. (The U.S. trade deficit is directly related to the budget deficit just as the Japanese trade surplus is directly related to a very high rate of savings relative to the Japanese budget deficit.)

The U.S. government must work toward a resolution of the LDCs' debt crisis, especially in Latin America. American exporters have paid a price in lost sales as the result of the many debtor countries in the Southern hemisphere being forced to cut back on imports. Austerity programs imposed as the result of shortages of foreign exchange have caused shrinkage in a major U.S. export market.

A single cabinet department should have responsibilities for formulating and conducting all phases of American foreign trade policies. This organizational change would improve the chances for a more unified and coherent trade strategy, while reducing the ability of foreigners to continue exploiting the weaknesses of the very decentralized trade bureaucracy that exists today in Washington.

The domestic economic and foreign trade policies of the U.S. government must do a better job of convincing American industry that it can compete successfully against countries with cheaper labor, elaborate industrial policies, and a greater official commitment to exporting. American industry should not view the U.S. government only in terms of adversary and occasional dispenser of relief from import competition. Industry should do a better job in educating policymakers and public opinion alike as to the competitive realities of international trade.

The government should not "reform" tax laws by ending existing favorable treatment for depreciation of capital equipment and for research and development expenditures.

American industry should demand quicker official responses to *unfair* foreign import and export practices. In return, the private sector should accept a more formal commitment to use any period of relief from *fair* foreign import competition to increase the international competitiveness of the protected industry through increased investment, better marketing strategies, lower unit labor costs, etc.

The U.S. manufacturing sector should accelerate its recent willingness to learn from other countries—especially Japan—about the need to adopt global marketing strategies, better quality control, lower production costs, better labor-management relations, fewer layers of middle management, etc.

Finally, the still internationally competitive U.S. high technology sector should not abandon its recently initiated demands for an access to the Japanese market fully equivalent to the access given to Japanese goods in the American market. Promises of further liberalization efforts by the Japanese government are not enough. Success in the biggest market for high-tech goods outside of the U.S. is imperative for the long-term health of American high-tech companies. Recent international economic history amply demonstrates that allowing a Japanese industry to develop in a protected home market means that the American competition eventually will be subjected to intense, possibly fatal competition.

No apologies needed—yet

U.S. trade policy, at least through late 1985, does not need any apologies. It has served the international economy well. Unfortunately, the large disequilibrium that the trade deficit has introduced into the U.S. balance of payments is not sustainable. It is doubtful that even the most export crazed foreign company will ignore the worrisome implications of the emergence of the United States as the world's largest debtor country and willingly add to its dollar balances forever.

In closing, it is important to note that future international trade harmony depends on more than American attitudes and actions. It is not easy to overestimate the importance of Japan's responding more effectively to foreign perceptions that it is not playing the international trade game fairly. The combination of the American economic initiatives that I have described and a constructive dialogue among the world's major trading nations is the best way to reduce the possibility that someday soon the United States will need to apologize for its foreign trade actions. ●