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ADDRESS OF WILLIAM E. BROCK

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TO TRADE NET/INTERNATIONAL HERALD TRIBUNE CONFERENCE ON

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U.S. AND EEC TRADE POLICES: CONVERGENCE AND DIVERGENCE

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A good fight makes good copy. It is fairly well recognized by now, that the United States and the European Community are in ~~real~~ ^{fundamental} disagreement regarding several important areas of international trade. These conflicts are not cosmetic, but they are not the whole story either. And it is often more exciting to focus on conflict than to examine and assess the underlying issues of economic cost and benefit that frame our broader relationship with Europe.

ELEMENTS OF DIVERGENCE

It is easy to recite the litany of bilateral conflicts and multilateral differences that we have with the European Community at this point.

- o We object to the effect of EC agricultural export subsidies on world markets.
- o We refuse to freely accept subsidized and dumped steel from Europe at a time when our own steel industry is operating with severe losses and substantially below capacity.
- o We oppose recent EC proposals to further close the European market to U.S. agricultural trade.

For its part, Europe has indicated that it will strongly oppose the extraterritorial extension of U.S. legal jurisdiction to its firms. Europe is gravely concerned with protectionist U.S. legislative initiatives, exemplified by the "domestic content" bill, unitary taxes, steel restraints, and a number of others.

More broadly, the United States has tried since the 1982 GATT Ministerial Meeting to find ways to strengthen the GATT mechanism in the service of freer trade, yet the Community has, of late, retreated from its traditional place in the frontlines of world trade liberalization, and has staked out a more negative position within the GATT on issues such as a Safeguards Code, renegotiation of the Government Procurement Code, and the initiation of a study of trade problems in high technology trade.

X: GATT has failed to come to grips with problem of non-market economy approach of many CPs.

ELEMENTS OF CONVERGENCE

We Americans, when faced with difficulties and internal divisions, like to remember Benjamin Franklin's remark [about the need for unity of the newly independent American colonies]. "Gentlemen," he reportedly said, "we must all hang together, or most assuredly, we shall hang separately." The wisdom of that observation could clearly be applied to the situation we now face in trade policy with the European Community.

Individually and collectively the countries of the European Community have been strong leaders and close partners in the construction of the post-war liberal economic order of freer trade, investment, and financial flows. In the 1970s and 1980s,

however, the oil shocks, persistent economic stagnation, and growing levels of unemployment began to undermine the unity of our trade policy views. Significant differences developed in our approaches to economic, trade, and development issues. During this period, strenuous efforts by both sides to manage contentious issues one at a time preserved our ability to cooperate towards maintenance of the the world trading system.

The Community and the United States remain each others' largest trading partners. Two-way trade of over \$90 billion in 1982 represented one-fifth of U.S. total trade and about one-sixth of EC external trade that year.

And, as economically developed democracies, we share a desire to maximize individual well being within the larger framework of overall economic growth and development. It is now apparent that we also share the basic problem of restructuring our basic industries to meet difficult and rapidly changing economic conditions. And at a time when traditional manufacturing jobs are disappearing, demographics and new work patterns foretell increasing net additions to the work force, compounding the problem of adjustment.

Most importantly, in the shared history of this century, we have learned together that economic growth and employment creation are intimately tied to the growth of international trade, and that our individual prosperity is dependent on the well being of our partners across the Atlantic. No amount of myopic isolationism or nationalism can change that reality.

But it is not enough to say that because of 90 billion dollars worth of two-way trade that the U.S.-EC trade relationship is sound.

It is not enough to say that because we share similar problems and similar aspirations that current differences on fundamentals are of no consequence.

We have nearly 90 billion dollars worth of two-way trade with Canada as well, but the prospects for a positive dynamic relationship seem brighter there. To be sure, we have our differences; the Canadian NEP or National Energy Policy, for example, is a source of conflict. But what are we talking about now? Sectoral free trade arrangements. Exciting, job creating, trade liberalization. Our two countries are opening doors, not closing doors.

Why isn't that the situation with the EC? It is a difficult question to answer, but perhaps by asking a few basic questions we can get some insight.

Where do we differ on fundamentals? Is our educational system superior to theirs? Probably not. Is our work ethic more ingrained? Probably not. Is our commitment to the ideals of democratic institutions more deeply held? I don't believe so.

True, we need to address our high interest rates and our deficits. Our friends across the Atlantic are quick to blame our deficits for these high interest rates and consequently for the stagnation of their economies. They rarely mention

their own high deficits--deficits much higher a share of GNP than are ours.

But now we are looking at some fundamental divergence that began our drift apart some twenty years ago. The U.S. is moving away from higher taxes, away from increased subsidies, and away from more governmental involvement in the private sector. Europe is not. Yet there are some in Europe who recognize that the strains are becoming unmanageable.

We sit across the table from each other as friends--but we must defend our vital interests. We do damage control as best as friends can do, but sooner or later we must deal with the fundamentals.

EMERGING ISSUES

THE IMPORTANCE OF THE LDCs AND THE DEBT/TRADE LINK

Our problems are not only with each other. We also share a growing dependence on the economic health of the developing countries that have become the fastest growing markets for our manufactured exports. Both we and the Community know from the sad experience of our export balances in 1982 that the LDC debt problem has serious trade implications. This will continue to have a negative impact on economic recovery in the developed countries through shrinking export markets and increased import competition from LDC goods.

And there is a broader threat to the world trading system itself. Under great economic stress ourselves, we must manage

*but not
in the
world's
most
traded
currency!*

to keep our markets open if the debtor nations are to improve their ability to pay. At the same time, LDCs must be encouraged not to increase import protection and export subsidies that could create long-term distortions in world trade. It is imperative that the developed countries work toward coordinated trade and financial policies that address these linkages between structural adjustment, open markets, and world financial flows.

INDUSTRIAL POLICY

Differing views on the role of government in aiding industries have also been a source of some bilateral concern. Basic industries both here and in Europe have found adjustment to new economic realities difficult. At a time of recession-induced high unemployment, jobs lost to restructuring are doubly difficult to absorb. In the United States, we have focused on creating new jobs in new industries to replace those lost to economic change. Individual European Government policies in many cases, however, have focused on shielding industries (and their workers) from change, not adapting to it. In industry, as in agriculture, the answer to difficult economic choices has often been to subsidize. This has become a further source of conflict between us, and shows promise of generating endless individual opportunities for current and future confrontation in trade matters, both in "sunset" and "sunrise" industries.

A deeper issue, for both "sunrise" and "sunset" industries, is how do we assure fair competition in international trade between publicly-funded and private corporations. This issue

is unresolved. While the issue goes well beyond our bilateral relations with the Community, our ability to deal with it will have important consequences for this particularly important international relationship.