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Members will find attached an article entitled "High Technology and GATT" by Lionel H. Olmer, U.S. Under Secretary of Commerce for International Trade.

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HIGH TECHNOLOGY AND GATT

By Lionel H. Olmer
U.S. Under Secretary of Commerce for International Trade

(The following article entitled "High Technology and GATT: The Key International Trade Issue Facing the United States, Japan and Europe," appeared in the August 20 issue of the Department of Commerce magazine "Business America.")

(begin text)

The nature of the world's industrial economics is changing in a most dramatic and fundamental way. No longer do land, labor, and capital determine a nation's comparative advantage to the degree they once did. Rather, it is the ability to adapt and use technology for the development of new products and services. In short, the mastery of information processing and the marketing of its results. Yes, we have entered the era of high technology, and it can and definitely will influence the international trade competitiveness of basic industries as well as future industries yet to be created.

Although the General Agreement on Tariffs and Trade, the GATT, despite its many flaws, has worked these past 40 years to the enormous betterment of our economies, as well as for those of other societies seeking modernization and industrialization through free markets, it does not now seem adequate to cope with this new era. And we are fumbling in a most ineffective way to establish rules of behavior to assure fair play: In my judgment, we are not progressing towards this end at a fast enough pace and because of the importance of this issue, failure to establish rules may well cost us the credibility of the entire system.

The American experience in high technology has been truly phenomenal. In little more than a dozen years, high-technology industries have had twice the growth of any other industrial sector, six times the labor productivity, and less than one-third of the inflation rate of others. Nine out of the ten fastest growing industries in the United States are high technology in nature, and they have been responsible for making improvements in unrelated fields such as steel and textiles. Moreover, because of their knowledge-intensive character, high-technology industries raise the educational standards of the work force and thus are responsible for instigating changes in the curriculum of our primary and secondary schools.

The majority of the 26 million new jobs created in America during the last 14 years have derived from high technology.

As new technologies evolve, they will create jobs, economic growth, and tax revenues. A market of more than 200,000 million dollars in high-technology products is likely by the end of the 1980s. Telecommunications itself will represent 90,000 million dollars in annual equipment sales by 1990, more than doubling the current level.

To a considerable degree, this explosive growth is being made possible because of President Reagan's decision to accelerate competition in the field of telecommunications in the United States, a decision which has spurred the creation of many new companies and which, I emphasize, is creating enormous opportunities for all countries who choose to and are capable of competing. America will represent about one-third of this market through the end of this century, the equivalent of all of Europe, and Japan comprises roughly 15 percent.

But Japan and Europe -- the next largest markets in the world -- are not reciprocating. Through a variety of measures, U.S. companies are simply not permitted access, irrespective of price, quality, innovation, or even consumer preference. Let me outline some recent examples:

-- Japan, just a few months ago, was about to pass a law which would have given its trade ministry the authority to require one company to sell its computer software to another company at a price MITI (Ministry of International Trade and Industry) deemed reasonable; it would simultaneously have severely limited the period within which protection from copying software by competitors would be provided.

-- Japan was also about to introduce legislation that would have limited to less than 50 percent the share of foreign ownership to be permitted in Japan in the emerging field of telecommunications services. (These two affronts to the concept and practice of liberal trade were beaten back, perhaps only temporarily, however, after sustained, often acrimonious negotiations.)

-- After three years of extraordinary efforts, U.S. companies had managed to sell less than 130 million dollars of telecommunications equipment to the Japanese government monopoly which procures over 2,000 million dollars annually. Of course, Japanese companies have been selling well over 2,000 million dollars worth of this equipment, including to the U.S. government and our private sector. With the breakup of our telephone monopoly, this figure promises to increase substantially.

-- To Europe's great disadvantage, there is no unified telecommunications market, but individual national entities which employ different technical standards and regulations. Thus, European companies are in the main not competitive outside of their own home market. They are inhibited from developing large-scale production within Europe because there is no single European market. Of course, they see the U.S. market as enormously attractive because of its size and homogeneity. And we have been welcoming those who choose to compete, without regard to national origin.

-- Perceiving the value of this market growth, European government-controlled monopolies seem committed to assuring continuing free access to the American market place, while they restrain competition locally. Thus far, the European Commission of the Common Market has been powerless to change this situation.

The question is, "Can the multilateral trade regime resolve issues such as these, which certainly were not contemplated when the system was initiated a half century ago, or will governments -- my own included -- lose confidence in the GATT and seek their own solutions through bilateral, country-by-country arrangements? Will they resort to outright protectionism?"

In the United States, we do not lack for cynics regarding the ability of the GATT to manage the new issues of high technology. There are those who seek support for a law which would say to Europe and Japan, "If you want to sell telecommunications in the United States, you must allow U.S. companies the opportunity to sell in your markets. And if you do not, we will remove the benefits of reduced tariffs which had been accorded in the last (1979) round of formal trade negotiations."

The Reagan administration has tried for three years without success to initiate an active discussion on these matters among the major industrial countries. I continue to hope that we will achieve a measure of success sufficient to ward off actions which would be counterproductive to further trade liberalization, perhaps even reversing the progress already made. But time is growing short. Japan, Europe, and the United States know what needs to be done. Whether the political will exists in Japan and Europe to accommodate the imperatives of the high-technology era remains an open question.