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WESTERN EUROPE AND JAPAN: TRADE WAR OR TRADE PEACE

Mr. JAVITS. Mr. President, I speak today because early next week the Prime Minister of Japan, Mr. Sato, will be here on a very important mission having to do with future trade, and because we have just had a report from the President relating to trade with Latin America that made some very historic proposals.

I have just been to the North Atlantic Assembly meeting as chairman of its Political Committee where the question of the access of U.S. products to the Common Market has met with very great resistance. So we are heading up to what may very well be an historic test in respect to the trade policy of the United States.

I have, therefore, felt that this was the moment to make some recommendations and propose some ideas in this field with which for some two decades I have been very intensely occupied.

In our foreign relations, public attention and public debate continue to focus on Vietnam. Unfortunately, only an unusual event brings our relations with Europe, Japan, Latin America, or the other countries of the free world to the front pages of our press. We pay a dear price for this practice of concentrating so much attention and so much effort on a divided country of 17 million people to the at least partial neglect of a world of 3½ billion people. For, this results in a tendency to overlook the fact that the very economic premises that have governed our relationships with other industrialized countries of the world are changing before our eyes.

A basic premise of our foreign economic policy during the 1960's was to work for the integration of Europe through the expansion of the European Common Market to include the United Kingdom and the other countries of the Outer Seven—which we still desire. The 1960's, through the Kennedy round, also moved the United States forward on the road of trade liberalization. And we also maintain a sustained commitment to foreign economic assistance for national security and moral reasons.

But while the United States was fighting in Vietnam, events in Europe and Japan have altered the economic foundations of this policy. Some American policymakers are now pondering the question of whether expansion of the EEC is indeed in the U.S. national interest. And looking across the Pacific, the forthcoming visit of Prime Minister Sato will highlight our growing economic problems with Japan.

As the 1960's marched by, two fundamental structural changes have taken place.

First, the United States lost its trade surplus, and became a deficit nation with an overall balance-of-payments deficit running to an order of magnitude of $4 billion annually. This year, this deficit was held to this level only because of the unusually heavy influx of capital to take advantage of high U.S. interest rates—a condition that is temporary. It thus can be said the $4 billion figure understates rather than overstates the seriousness of our position; and a deficit in the U.S. balance-of-payments position of up to $10 billion annually is being freely forecast.

As the United States has moved from a surplus to a deficit position—and this movement is another legacy of the Vietnam war—support for liberal trade and aid policies was eroded. A nation, like a household, has less freedom of action and can be less liberal as the bank account—the surplus—is drawn down. The second car becomes a luxury that can no longer easily be afforded—and this second car as we all know frequently bears a Japanese or West German trademark. In a deficit situation, aid programs also are increasingly viewed as expendable expenditures, and the expansion of our gross national product is now being matched by our shrinking outlays for foreign economic assistance to the developing nations of the world. We rank not first but eighth in the list of industrialized countries granting aid—in terms of development assistance as a percentage of GNP.

The shrinkage in the trade surplus is also directly connected with the growth of protectionist pressures in the United States. This pressure has grown to the point that the Emergency Committee for American Trade has warned:

> This year 1969 could be remembered—like the year 1929—as the date that a trade war began—the second of the 20th century. The first shot in a new trade war might be fired at any moment—here in the United States or in France or in Great Britain—in any country where new restrictions on imports are imposed.

It is clear that the troops for such a trade war have been mobilized. Over 70 Senators recently sent a petition to the President requesting action against rising shoe imports. If the forthcoming negotiations with Japan do not bear fruit, the trade war may open—a trade war that would be declared by the Congress. The omens are clear. I refer in particular to S. 2885—a bill to establish an "orderly trade" in textiles and in leather footwear—a quotas bill. That textiles may become the battleground will particularly distress our European and Japanese friends since they are convinced that a sound economic case for a comprehensive, bilateral agreement establishing quotas has not been made.

This brings me to the second major change that has occurred.

Second. In the same time span that the United States was moving into a deficit position, the economic policies of the Common Market have become more protectionist, and those of Japan have not moved toward the liberalization which logically could be expected. As a result, these nations must bear partial responsibility for the mobilization of protectionist forces within the United States.

I regret that the European Common Market is increasingly taking on the appearance of a narrow, inward-looking protectionist bloc whose trade policies as they affect agricultural as well as industrial products increasingly discriminate against nonmembers.

The Europeans know well the concern existing in the United States and among American exporters over the system of border tax adjustments. The use of these border tax adjustments, which combine a tax on imports and a tax rebate system for exports, erects barriers to trade which work to the disadvantage of U.S. exporters.

Other examples of potentially restrictive arrangements include the French, British, and West German move toward the establishment of a system of common standards for electrical components that could serve to restrict trade, and the highly restrictive European textile import quota system which has the net effect of channeling increased textile flows to U.S. shores. More open European government procurement procedures are also very much in order since the present system has the effect of excluding competitive bidding by the United States and other suppliers.

These trade policies in the industrial field, which are moves toward protectionism, are serious, but the implications of the EEC's common agricultural policies, CAP, are overwhelming. If pursued, the CAP's policies of high agricultural support prices combined with no limitations on production could score a knockout punch not only to the world agricultural market structure, as we presently know it, but also to the possibility of the United States continuing the liberal trade policies that this Nation has pursued over the past 25 years. Western Europe should know from a friend that the CAP as it is presently constituted runs the risk of alienating the U.S. farm bloc which traditionally has had a liberalizing effect on U.S. trade policy. Such alienation of support could be decisive.

Dr. Harold B. Malmgren, formerly of the White House's Trade Office, in a recent widely publicized speech, eloquently outlined the case against this common agricultural policy of the EEC. His words are worth recalling:

> Defenders of the Common Agricultural Policy have sometimes argued that the level of exports from the U.S. and other countries would continue to rise, in spite of the system. They believed internal demand would continue to grow fast enough to offset the damaging effects of the import levies. Until 1965–66 this did in fact happen. But subsequently, after the full system fell into place for many products, there has been a reversal. In the last three years, U.S. farm exports to the EEC have fallen nearly 20 percent. The items subject to the variable import levy system amounted to $736,000,000 in 1965–66; in 1968–69 they were $441,000,000. They fell, in other words, nearly 40 percent.
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> This is not the whole picture, however. While increasing its import protection, the EEC has simultaneously been raising its level of domestic farm production. This has resulted in increasing need to unload surpluses in world markets at heavily subsidized, distress prices. Export subsidization has been used more and more aggressively, in a wide range of products, including poultry, lard, dairy products, barley and now wheat. Thus the workings of the Common Agricultural Policy have resulted in reduced imports, increased production, and artificially assisted exportation. Obviously, this means increased competition for other exporters in remaining markets and a downward pressure on world prices.
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> These developments would be harmful enough by themselves. But there is likelihood that the practice will spread.

The CAP policies strangely have not even benefited Europe. Dr. Malmgren notes:

> It may surprise you, but the total costs to the six member countries of the Common Agricultural Policy run about 14 to 15 billion U.S. dollars annually. About $8-billion dollars of this is accounted for by government spending and $6- to $7-billion is accounted for by costs to consumers resulting from artificially high prices. At this juncture with farm surpluses building up rapidly, and the costs skyrocketing, you would think that the European Commission would admit that the system has not worked well, and must be restructured.

I join in Dr. Malmgren's warning that these developments are not only harmful enough by themselves, but that there is the clear and present danger that the practice will spread. It is also clear that U.S. policymakers will consider the evolving nature of the Common Market, as they develop the U.S. posture toward moves presently underway to enlarge the EEC. The question must be posed of whether U.S. policymakers might indeed not be compelled by U.S. sentiment to shift their support away from enlargement of the EEC if the economic price in terms of U.S. trade particularly in the field of agriculture were too high.

Turning to another facet of EEC-trade policy, it is regrettable that just as a major diplomatic effort was underway to negotiate a system whereby all industrialized countries of the free world would agree to grant generalized, nonreciprocal, nondiscriminatory tariff preferences to the products of all developing countries, the EEC opened negotiations with Spain pointing toward the establishment of another comprehensive bilateral preferential trade agreement. Recent preferential trade agreements negotiated or renegotiated by the EEC include the Yaounde agreement, the agreement with the East African communities, and an agreement with Tunisia and Morocco. Most of these agreements cover a wide range of products—agricultural and industrial—and the Yaounde agreement even extends reverse preferences to EEC products in African markets. Yaounde contains the carrot of $918 million in developmental assistance over the life of the agreement. In my opinion, all these agreements are inward looking and benefit only the ingroup to the exclusion of other developing and developed states. It also seems clear that they tend to erode the General Agreement on Tariffs and Trade and the principle of most-favored-nation treatment. It is also clear that these discriminatory agreements do not strengthen liberal trade forces in the United States.

In light of these facts, President Nixon's statement on preferences made when Governor Rockefeller's report on Latin America was released is a logical sequence. The President said:

> If the type of international agreement proposed by the United States could not be negotiated within a reasonable time, then the United States will be prepared to consider other alternative actions it can take to assure that the American nations will have preferential access to the U.S. market.

The significance of this proposal cannot be overestimated. It moves the world one step further away from the principle of most-favored-nation treatment in trade and toward the further proliferation of regional trading groups; and once the United States steps down this road, the process will be difficult to reverse. Such a development will have profound implications in the political sphere also. World policymakers should now carefully pause and look ahead into the future and decide what path they should follow and consider what shape they wish the world to take for the remainder of this decade. I would greatly prefer our following the path whereby all the industrial nations of the world grant nonreciprocal, nondiscriminatory generalized trade preferences to the developing world. This clearly is also the wish of the developing world including Latin America as the UNCTAD conferences and the Consensus of Vina del Mar have made abundantly clear.

Again, looking across the Pacific, I must observe the apparent double standard which has resulted in a Japanese trade surplus in relation to the United States of more than a billion dollars annually for 2 years running. I must point out that trade is a two-way street, and that continuance of such a billion-dollar surplus is unsustainable—both politically and economically. This is particularly true since more than any other nation in the free world, Japan has erected the most severe nontariff barriers to goods and capital. Since the war, our corporations have actively promoted U.S. sales in the Japanese market, but have been faced with continued and, in my view, increasingly unjustified trade and investment barriers. For example, while even Japanese tariff schedules are relatively high and restrictive—particularly on luxury items, chemicals and machinery—the greatest discrimination continues to be the non-tariff regulations imposed or perpetuated by the Japanese Government. The more substantive of these barriers to free trade include: First, quantitative import controls, many of which are on agricultural products; second, restrictive licensing requirements; third, sizable commodity taxes on automobiles and liquor which affect imports more severely than domestic production; fourth, a prior import deposit requirement of 1 percent or 5 percent which can be disastrous to the importer when credit is tight or profits are slim; and fifth, a widespread system of state trading. In the investment area, U.S. investment in many fields is either prohibited or severely restricted. The impact of these restrictions varies according to the products and the barriers they face, but all contribute substantially to Japan's growing trade advantage over the United States. Unfortunately, liberalization moves have taken place at a very slow pace and have not been significant. I think we have reached the point where the alternatives are clear: Japan needs to liberalize trade and investment or Japan will increasingly encounter such restrictions in foreign markets as Japan has erected to insulate its own market.

Fortunately, the international trade slate is not totally black and measures can still be taken before full and irrevocable mobilization of protectionist forces is ordered.

I applaud not only the words but also the actions of Chancellor Willy Brandt in the short time he has been in office. No one can question the Chancellor's words that by the reevaluation of the West German mark "we have made a major contribution in the foreign trade sector toward further liberalization of world trade and toward stabilizing the international monetary system." No one can fail to admire the political courageousness of the decision to reduce West German agricultural support prices by 9.3 percent and the institution of a direct farm subsidy system. This contrasts with the community's inability to adjust European agricultural prices when the franc was devalued.

Chancellor Brandt's statements on trade also indicate that West Germany has indeed come of age.

He stated:

> The world can expect of an economically strong country such as ours a liberal foreign trade policy designed to promote the trade of all countries. We contribute toward this end by our policy and by our participation in all organizations dealing with world trade. We tend to promote our trade with the developing countries and here I mention but the universal preferences for commodities from the developing countries.

Finally, I applaud the statement that the enlargement of the European community must come and the movement toward this end at the recent EEC Foreign Ministers' meeting in Brussels. Chancellor Brandt stated:

> The Community needs Great Britan as much as other applicant countries. In the chorus of European voices, the voice of Britain must not be missing, unless Europe wants to inflict harm on herself.

I urge the countries of the Common Market to take cognizance of the new fresh winds blowing from West Germany. I ask that these countries ponder the possible grim alternatives to the liberal trade policies proposed by Chancellor Brandt.

Regarding Japan, there is evidence that pressures within Japan for trade and investment liberalization are growing. There is hope that mutually satisfactory arrangements—whose elements may well include Japanese trade and investment policy and U.S. policy toward Okinawa—will emerge from the forthcoming visit of Prime Minister Sato.

I find it encouraging that the Japanese are apparently willing to negotiate a limited, selective understanding governing their textile exports to the United States. I do not feel that the economic facts justify the United States pressing for a comprehensive, bilateral agreement at this time. Such a posture would make agreement difficult, would have unfavorable political repercussions in Japan and could even affect Japan's relationship with friendly Asian nations—such as South Korea, Taiwan, and Hong Kong—which are also textile exporting nations; and possibly could encourage Japan and Western Europe to take additional restrictive steps against our exports.

This brings me to the issue of the change in the status of Okinawa which will be discussed during Prime Minister Sato's visit to the United States next week. The Senate has just passed a resolution which I opposed which held that "it is the sense of the Senate that any agreement or understanding entered into by the President to change the status of any territory referred to in article III of the Treaty of Peace with Japan shall not take effect without the advice and consent of the Senate."

I opposed this resolution since I felt that its rationale was not protection of the Senate's prerogatives in the area of foreign affairs but rather an effort that could prove embarrassing to both Governments to derail an agreement with Japan.

I view it of high importance that the change in the status of Okinawa should not only take into account defense considerations, but also should be accompanied by Japanese trade and investment liberalization. In this way, the negotiations over Okinawa would be creative leading to a greater two-way flow of trade and investment. In my opinion, it would be a serious mistake to use the forthcoming bargaining over the change in status of Okinawa to press Japan unilaterally to impose comprehensive quotas on its textile exports to the United States. Regarding our textile problem, let the United States, Japan and other interested nations rather sit down in Geneva under the rules of the GATT and negotiate a fair and just multilateral agreement—fair and just to our textile industry as well as to exporting nations.

It is against this background that the foreign economic policy of the United States is being formulated. As indicated earlier, President Nixon has now made clear the alternative to OECD acceptance of a generalized system of tariff preferences for the developing countries. The negotiating authority of the Trade Expansion Act has expired, and the full tariff cuts won in the Kennedy round will have been implemented by January 1, 1972. It is likely that the trade bill the administration will send to the Congress in the near future will not be more than a holding action—meaning that it will not request the authority to engage in negotiations leading to additional tariff reductions. The bill is likely to contain proposals for liberalizing escape clause procedures which are necessary and may request negotiating authority in respect to nontariff barriers. I am concerned that liaison between the executive and legislative branches on these crucial trade questions are not yet close enough and that we are not yet working in concert.

In the near future, the Joint Economic Committee will open crucial hearings on U.S. trade, aid, and investment policies which will have an important molding effect on any trade legislation which is likely to emerge in the early 1970's. The hearings of the Joint Economic Committee played a similar role during the early 1960's before the Trade Expansion Act was introduced. Presidential task forces on trade and aid will also be working and making their recommendations early next year. It is fair to say that the economic and trade policies of Europe and Japan will help determine the eventual shape of our policies. They will also help determine the actions of the 91st Congress in the months ahead.

Finally, I would like again to turn to the words of Donald M. Kendall, distinguished business leader and chairman of the Emergency Committee for American Trade, when he said in January of this year:

> What the world needs now is trade peace, not trade war.

It remains for all parties to construct such a trade peace—particularly when the omens seems to be pointing in the other direction. I also believe that if indeed the first shots of a trade war already have been fired, they were not fired by the United States. The opening salvos perhaps are represented by the Japanese billion-dollar trade surplus for 2 years running and the movement of the European Common Market toward protectionism. The time is short before American defensive actions accelerate. To Europe and Japan I say in effect: "It is your choice."

Mr. PERCY. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. PERCY. Mr. President, I commend the Senator from New York for his comments. He has long been an exponent of freer trade, a policy supported by every administration we have had in Washington since the days of the Smoot-Hawley tariffs. We saw the calamitous consequences of that high tariff policy which shut off the United States from world markets and kept all countries from having the economic benefits that freer trade offers.

I would like to indicate that I related the very spirit and words of the distinguished Senator's message, in company with Ambassador Armin Meyer, to Mr. Aichi, Foreign Minister of Japan, before he left for the Soviet Union. I tried to point out to him that Japan no longer can claim it is a developing nation. It no longer needs protection on imports. Rather it is now a powerful economic force. It has broad markets throughout the world. It has a huge balance-of-payments surplus and it must now respond as a developed nation rather than as a developing nation. It cannot expect to export steel to the United States and then limit imports going into Japan which have steel in them, such as refrigerators, automobiles, or whatever they may be.

They must recognize that if a trade war starts, they would be the country most severely penalized because every country would retaliate against Japan, just as the European Economic Community cannot expect to impose tariffs on soybeans and not expect retaliation.

Mr. President, I congratulate the Senator on his message urging peaceful trade relations rather than a trade war, and attempting to lay a foundation for those trade relations.

Mr. JAVITS. Mr. President, I am grateful to the Senator, and I thank him for his endorsement. His comments are most gratifying.

Project

Brussels, 25th N vember 1969
ER/jds

Dear Senator Javits,

Confidential

The statement which you made on november 13 before Congress on trade war or trade peace has received a good deal of attention in this part of the world. After having had a chance of reading the entire text in the congressional record I cannot refrain from making a few comments, particularly with respect to what you said about trade policies pursued by the EEC. Indeed, nothing seems to me more important at the present moment of relations between the United States and Europe than to discuss, in open and frank talks, problems of common concern. Such discussions will not always produce an identity of views. But they can at least contribute to increase our mutual understanding of each other's problemsn and attitudes and wipe out a certain number of misunderstanding which, by becoming part of public opinion, might exert a dangerous influence on policy decisions taken by either of us.

In your speech you accused the Common Market economic policies of having become more protectionist, both in the field of industrial and agricultural products. You will no doubt understand that I simply cannot go along with that statement because, I think, it is not true. Let me therefore take up the major points one by one in the same ~~xxdxrx~~ order in which you ~~xxxxxxxx~~ list them. With regards to the so-called "border taxes" I would like to draw your attention to the fact that the same taxes on imports and tax rebates on exports which you consider as a trade barrier to US products apply also within the EEC, without there being the slightest discrimination. As you may know, our value added tax is being levied ~~on~~ at every stage of industry and commerce while in the United States consumption taxes are levied practically only at the retail level. It is due to this difference in the method of tax collection that the EEC countries have to proceed to tax compensation at the border - for all its imports and exports, while the United States has to do so only for very few products like automobiles.

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In any case, it is inadmissible to consider our tax compensation at the border as a trade barrier. This has become increasingly clear in the discussions that have gone on for months in the GATT sub-committee created for that purpose; and the US Administration has also, after long hesitatio embraced this point of view. For your personal information I am joining a copy of "European Community", September 1969 in which we published an article concerning some misunderstanding with regards to "border taxes".

You attribute to "the highly restrictive European textile import quota system" the increased textile flows to U.S. shores. "However, if you look at the evolution of imports since 1960, you will be surprised to find that, despite ~~our~~ its "highly restrictive quota system", EEC imports from third countries have been growing consistently faster than US imports of textiles In the case of the US the average annual growth rate of imports was 10,5 % between 1960 and 1968 compared to 12,3 % for the EEC; and while textile imports into the Community have increased substantially faster than ~~overall~~ total imports, this was not the case in the US. The rapid increase of our textile imports is not surprising. Indeed, we have continuously worked towards removing our quantitative restrictions. Today these hit only a very limited number of items imported from an equally limited number of countries, the majority of textile products being completely liberalised. One should also not overlook that, while the EEC countries still maintain some quantitative restrictions, EEC duties on textile products are on the average 20 % to 30 % lower than those imposed by the United States.

As far as government procurement is concerned, I would like to make only two remarks. First, there is so far no European procurement system. Any discrimination that exists in this sector, and I will certainly not deny the existence of such discrimination, hits evenly every supplier outside the specific country which invites bids, whether European or American. Secondly, procurement procedures favoring national industries have always existed in all countries. They have nothing to do with economic policies of the Common Market. The EEC has been trying for years, with little success so far, to abolish any statutory discriminations between member countries. We are also ~~willing~~ ready to discuss this problem in the context of world-wide negotiations on non-tariff barriers .

This brings me to our agricultural policy. I am fully aware of the repercussions which our policy in this field may have on US exports of certain agricultural commodities. There is not much use in arguing statistics and pointing out that while US agricultural exports to the Community fell by nearly 20 from their peak level of $ 1,6 billion in 1965/66, they are still ~~about~~ some 80 % higher than in 1958.

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Nor do I insist on the fact that almost half of US agricultural exports to the Community are either subject to no duties, levies or other restrictions at all, as is the case particurlarly with oilseeds oil cakes, corn by-products,cotton,hides and skins,or to very a moderate protection, as is the case for dried fruit and vegatables, vegetable oils. Finally I shall not dwell upon the restrictive import system the United States, despite its highly efficient agriculture, has to maintain in favor of US dairy,meat and oilseed products.

I think the issue is basically of political nature and has to judged as such. The political question simply is how fast we can transform the farming European Community into an efficient economic sector. Most European countries have a century old tradition of agricultural protection. When we started forming... the Common Market in 1958,our legacy was awful : too many people in agriculture,fragmentated landholdings, low productivity, insufficient use of fertilizers, machinery and pesticide, low incomes compared to other sectors of the economy, varying but generally high degree of protection. The Rome Treaty imposed upon us to create a common market for agricultural products and to assure farmers an adequate income. So we had to fix a common level of support for the whole community. This support is not higher than the average of national support levels, for EEC prices were fixed somewhere between the highest and the lowest mark. It is therefore simply not true, contrary to what Dr. Malmgren claims, that our prices or our protection are three times as high than they were in 1960. This is not to imply that some prices have not been fixed at too high a level, considering the explosion of agricultural productivity and production which most of us under-estimated in the beginning of the sixties. But it is easy to criticise and to overlook the tremendous political pressure for an even higher price level within the Community. I remind you in this connection that in spite of 4,5 million people having left agriculture since 1958, in France one in six, in Italy even one in five occupied persons is still depending on agriculture for his living. It is also not sufficiently known outside the Community that our farmers have openly expressed their miscontent with what they consider an inadequate support level by organising riots and by refusing to further collaborate with the respective government or community institutions. We simply cannot close our eyes before the enormous amount of social unrest that exists among our farmers.

Under these circumstances it will prove very difficult indeed to have adopted even relatively modest measures like the reduction in wheat sugar and butter prices which the Commission just proposed to the Council.

When, 15 years ago the United States was confronted with similar problems, it was fortunately in a more favorable situation than the EEC and pratically all other developed countries when they try to cope with the "agricultural production revolution" that seems to be inevitable at a certain stage of economic development. Indeed, the United States could still use its agricultural surpluses to build up markets in Europe, in the less ~~mxxkxkxxk~~ developed countries and even in the central market economies. Today the scope for "food aid" is much more limited, because the world market is saturated and the LDC's themselves cannot absorb all the surpluses without endangering their own agricultural production. Whatever the difficulties ahead, in the Community we are resolved to settle our surplus problems; and we are also ready to discuss with the United States and all other interested parties what constructive measures can be taken to solve the difficulties that confront ~~xxx~~ all of us in the world markets.