A
Letter From
EUROPE

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from its Delegation in Washington

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LOCK UP YOUR DAUGHTERS! PROTECTIONISM IS ON THE PROWL

But now, alas, the urge to win,
Has brought a breach of discipline
With all the seeded players free
To denigrate the referee,
And go for game, and set, and match
By any rules their leaders hatch
Which give their overseas accounts
The better of the trading bounce.

In other words, protectionism. A lot has been said about the dangers a trading nation runs of retaliation against its exports, should it impose import restrictions. But since protectionism is a many-splendoured thing, I would like to tackle this month some of the other myths and dangers which are linked with protectionism.

The first illusion is that free trade is bringing about the deindustrialization of America. Imports are flooding in, industry is collapsing, jobs are being lost because of imports - a figure of 3,500 jobs a day is frequently mentioned on the Hill. But what are the facts?

The facts are that the rapid rise in employment in the United States in recent years has been one of the major achievements in the post-war world. Over eight million new jobs have been created since 1980. Industrial production in the United States reached an all-time high in 1984, and manufacturing's share of Gross Domestic Product has held pretty steady for the last 30 years. And while the total number of manufacturing jobs has hovered around 19 million since 1970, this is a far cry from tales of depopulated towns and workers streaming out to the boondocks. In fact, a recent study by Professor Arthur Denzau at the Center for the Study of American Business has shown that total employment of production workers is continuing to rise, as manufacturers contract out more and more work to sub-contracters and suppliers - many of whom are classified as being in the service sector.

Illusion number two - imports are the reason for unemployment in steel, textiles and other key industries. The situation is not so simple. A Federal Trade Commission study of the American steel industry shows that the generous wage increases granted in excess of average wage gains by other factory workers have been the largest single reason for the lack of competitiveness and the unemployment in American steel companies. The fact is that a worldwide economic realignment is underway, with comparative advantage shifting toward developing countries that can combine basic industrial technology with low labor costs. It's a challenge that must be met realistically, as we have done in Europe by cutting back and restructuring our steel industry to be more competitive. When industries are sheltered under a protectionist umbrella, they increasingly tend to price themselves out of the game. Protectionism is, at best, only a quick and temporary fix.

Illusion number three - protection is the way to save jobs. A recent Wall Street Journal poll showed that two-thirds of those interviewed thought restrictions would save jobs. Most economists think otherwise. "I believe that there are no jobs saved in the economy as a whole" as a result of protection, Robert Lawrence, a senior fellow at the Brookings Institution, said recently. The reason? Saving jobs in one sector means higher costs to consumers, less money to spend in other sectors (leading to job losses there), and an economy that is thus weakened overall and less capable of generating growth - or new jobs. Professor Denzau's study shows that if the U.S. had imposed a 15 percent import quota on steel in 1984, as the industry wanted, 26,000 steelworker jobs could have been saved - but at the cost of 93,000 jobs in steel-using industries.

The Textile Quota Bill provides an even more vivid example of how protection undermines domestic growth. According to the President's Council of Economic Advisors, the quotas would save 100,000 jobs in the textile industry (leaving aside jobs lost in other sectors from retaliation), but at the staggering cost to consumers of $14 billion dollars. It works out to no less than $140,000 per job saved in an industry where the average worker takes home less than $20,000 per year. And while clothing producers could raise prices, that would reduce sales, raise living costs (especially for the poor), and generally make the country worse off. Exports would decline, and as foreign producers cut back, world prices would decline. And we're back to square one.

Protectionism solves nothing. It weakens industry, damages the overall economy, and does all this without creating jobs. Moreover, it slows world trade and world economic recovery. This is why we have welcomed the firm stand taken by the U.S. Administration against protectionism, and for a new round of multilateral trade negotiations.

What part is the European Community playing? I would point to a few recent indications of our positive role. First, we fully support the idea of a new trade round - including services - and are doing our utmost to move this forward in co-operation with the U.S. Delegation to the GATT in Geneva. Second, our Council of Ministers recently agreed to bring forward by one year the last of the tariff reductions agreed in the Tokyo Round in 1979. Third, Senator Dole said recently that over the last ten years the U.S. has lost 600,000 jobs in the steel, footwear, and textiles and apparel industries. We in the Community have lost one and a half million jobs in the same industries over the same period. Yet we are not contemplating any across-the-board restrictions on textile imports.

So whatever particular dispute we have across the Atlantic, we must both - U.S. and E.C. - keep our shoulders to the wheel against protectionism. So far we have been pretty successful. May we continue to succeed.

Roy Jenkins

WINDOW ON THE EUROPEAN COMMUNITY

CENTRAL AMERICA AND THE E.C.: A NEW DIALOGUE

The European Community strengthened its ties with Central America early this month at a conference which produced a five-year cooperation agreement and a plan to develop a political dialogue that may help promote peace in the region.

"This is a very important political step," said Claude Cheysson, the E.C. Commissioner for North-South relations. "We must now demonstrate our will to act together in the medium and long term, with mutual regard and the recognition of differences, in the framework of an agreement of peace and cooperation."

Attending the November 11-12 talks in Luxembourg were the Foreign Ministers of the ten E.C. member states (plus future members Spain and Portugal), Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Contadora group countries Colombia, Mexico, Panama and Venezuela. The Ministers signed a five-year accord under which they agreed to grant each other most-favored-nation status, to cooperate in technological, agricultural, industrial and other fields, and to promote European investment in Central America. The Community also pledged to provide development assistance to the region, and said it would examine ways in which its Generalized System of Preferences might be made more beneficial to the countries involved.

Perhaps the most striking element of the conference was the agreement to institutionalize the political dialogue that was begun last year, at a similar conference in Costa Rica. It was agreed that ministerial meetings would be held on an annual basis, aimed at helping the nations of Central American find a "negotiated, global, political solution" to the violence and instability in the region. Such a dialogue, it is hoped, may also help reinforce democratic principles and institutions, foster national reconciliation, and guarantee freedom and human rights throughout Central America.

The importance of regional economic projects, increased private investment, and the need for closer relations in vocational and literacy training were underscored in the conference's economic communique, which also lent support to long-term solutions to Latin American debt problems and to a new round of international trade negotiations. The conferees affirmed their conviction that world trade must be expanded to hasten global economic recovery, and that the functioning of the international monetary system should be improved. All agreed that efforts to implement the General Agreement on Tariffs and Trade program should continue, and that international commitments to combat protectionism should be honored.

TRANSATLANTIC WINE TRADE OPENING

American winemakers are raising their glasses to new E.C. actions that remove the last remaining barriers to U.S.-E.C. wine trade. Regulations adopted last month have simplified certification procedures for wine imported into the Community, and mark the final step in the implementation of a 1983 agreement that was drawn up to harmonize wine regulations across the Atlantic.

That agreement, one U.S. Treasury official noted recently, "has enabled U.S. wine exports to expand from a few thousand gallons to more than two million gallons annually. These bilateral commitments will ensure future market opportunities for the U.S. and offer significant opportunities for trade expansion." Such opportunities have, in fact, expanded enormously for American winemakers, with a growth in the European market's share of total U.S. exports growing from 3.5 percent in 1978 to 22.5 percent in 1984. The Community currently levies no compensatory charges on imports of bottled wines from the U.S.

DELORS WELCOMES ANGLO-IRISH ACCORD

E.C. Commission President Jacques Delors offered his congratulations this month to the governments of Britain and Ireland on the conclusion of an historic agreement that establishes the Irish Republic's right to regular, formal participation in the affairs of Northern Ireland. President Delors affirmed the Community's support of the accord, calling it an event of great meaning for all the people of Europe.

"Europe has learnt from its past that violence is not the answer," Delors said. "The creation of the European Community has demonstrated that a credible alternative exists in the process of negotiation between democratic states. It has shown that it is possible to guarantee to everyone the chance to share in the development of their homeland, and that this can be done in a climate of tolerance while respecting the beliefs and convictions of all. The Irish-British agreement is true to that goal of peaceful settlement. I pledge the continued whole-hearted support of the Commission to the economic and social development of Northern Ireland, and to effective cross-border cooperation."

EUREKA! HIGH-TECH COOPERATION

The governments of eighteen European countries met in Germany early this month to launch a coordinated, Europe-wide program of joint research in a range of high-tech fields. The program, known as EUREKA, was originally proposed by France earlier in the year as a non-military response to the American "Star Wars" research, and is becoming part of the E.C.'s effort to build a "European Technological Community" that will put Europe on the cutting edge of high-technology R&D.

The two-day meeting of Foreign and Research Ministers approved a charter of principles for the EUREKA program and selected ten pilot projects (from over 300 proposals submitted) designed to stimulate cross-border cooperation in fields as diverse as robotics, computer networks, biotechnology, and lasers. In two of the projects, the European Research Data Network and the Eurotrac air pollution program, the E.C. Commission may play a major role. Funding for the program is still under discussion, but will probably come from both public and private sector sources.

In a seven page "declaration of principles" adopted at the conference, the participating governments (the ten E.C. states plus Spain and Portugal, Sweden, Norway, Switzerland, Austria and Turkey) set out their objectives and criteria for EUREKA, and affirmed their belief that the program would "strengthen the basis for lasting prosperity and employment" in Europe by fostering "closer cooperation among enterprises in the field of advanced technologies."

AGREEMENT REACHED ON STEEL TRADE

U.S. and E.C. negotiators agreed this month on a four year pact limiting European steel exports to the United States—an agreement that should do much to ease transatlantic trade tensions. The ad referendum agreement, which will hold E.C. steel shipments to about 5.5 percent of the American market through September 30, 1989, is the latest in a series of market sharing arrangements the U.S. has been negotiating with its trading partners to keep exports to 18.5 percent of the American market.

The accord was met with praise by both sides; U.S. Trade Representative Clayton Yeutter called it a "major accomplishment for the President's steel program," and Willy De Clercq, the E.C. Commissioner responsible for trade relations, affirmed that the accord "preserves the essential interests of the Community's industry" and would assure stability in U.S.-E.C. steel trade for the next four years.

Under the new plan, which is essentially an extension of the 1982 U.S.-E.C. steel accord, the E.C. will gain 150,000 additional tons of exports, and the scope of the arrangement has been broadened to cover certain products which were not covered by either the 1982 agreement or the complimentary arrangement signed last August. Semi-finished products will not be subject to quantitative limitations but will continue to be considered "consultation products," and the arrangement on pipes and tubes signed in January 1985 will be prolonged through September 1989. Export limits will be implemented for the stainless steel goods that have been covered under American safeguard measures since 1983, as soon as the measures are ended.

JOBS FOR EUROPE: NEW COMMISSION PLAN

The E.C. Commission has adopted a strategy for economic growth in the Community that aims at raising annual economic growth from 2.5 to 3.5 percent over the next few years, while reducing unemployment from its current 11 percent to 7 percent. The plan, outlined in the Annual Economic Report for 1985-86, calls for a cooperative and concerted attack on European unemployment by the E.C., national governments, employers and unions. Without such a cooperative approach, the Commission believes, little real improvement could be expected before the end of the decade.

The Commission is therefore aiming at creating higher and more job-intensive growth in the medium term without rekindling inflation. An increase in job-creating investment by the business community is considered crucial to the success of the strategy, but is only likely if the outlook for sales appears favorable. This, in turn, requires that real wages continue to increase moderately and that demand be maintained at an adequate level until the growth process becomes self-sustaining. Investment, at 1.6 percent this year, is expected to recover to about 3.7 percent in 1986.

The Commission is also advising that monetary policy be designed to reinforce the progress already made against inflation, which has been cut from an average 11.7 percent in 1981 to 5.2 percent this year. Interest rates should be brought down carefully through a combination of internal measures, a gradual reduction of imbalances in the U.S., and a return to a more normal exchange rate for the dollar.

Unemployment in the E.C., still on the rise, now stands at 13.6 million people.

Budgetary policy should aim at consolidation in the countries where public indebtedness is still very high, and should help to underpin demand where room for manoeuvre exists, the Commission says. It should also be geared to restructuring public spending in ways that will help create jobs and promote growth.

Transforming the plan into reality will take several years, according to the Commission, and will require genuine cooperation among the social partners. Which actions particular states and groups will be able to take will depend on their circumstances; Germany, for example, could well see a growth rate of over three percent in 1986, with both a considerable current account surplus and a decline in the government deficit. This would give the government considerable flexibility in its fiscal and external policies, allowing it to increase public investment and to advance to 1987 the tax reform planned for 1988. Such actions, the Commission believes, could well start a "positive chain reaction" that would bring about a lasting improvement in employment.

EURO-ARAB RELATIONS: TALKS BEGIN

A dialogue between the E.C. and the Gulf Cooperation Council (GCC), several years in preparation, got underway on October 14 with a meeting in Luxembourg of high level Community and GCC officials. Agreeing that it was time to move discussions to a new and more active phase, the two sides said their aim was to conclude a comprehensive and mutually beneficial agreement that would foster broader commercial and economic cooperation. High level talks are now examining in depth the substantive issues—including industrial cooperation, technolgy transfer,investment, and so on—that might be covered in the negotiation of such an agreement.

While the Community and the Gulf States have as yet no formal relations at the regional level, contacts between the two sides aimed at exploring the possibility of establishing a cooperation agreement began as early as 1980. The GCC itself was set up in June of 1981 by Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman and Bahrain, with the intention of creating a customs union and fostering closer cooperation in monetary policy, energy, investments and economic development.

The E.C. and the Gulf states are becoming increasingly important to each other as trade partners. The Community grants the Gulf states the benefit of Most Favored Nation status in trade, and imports of manufactured goods from the region benefit from duty-free access to the Community market. Exports of petrochemicals from the Gulf area have expanded enormously in recent years, as have E.C. exports of intermediate and manufactured goods. Trade between the two areas was about $32 billion in 1984.