

THE HERITAGE LECTURES

93

Trade Legislation:
Effects on America's
Competitiveness

By Ambassador Clayton Yeutter



The Heritage Foundation was established in 1973 as a nonpartisan, tax-exempt policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty, and a strong national defense. The Foundation's research and study programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world.

Heritage publishes its research in a variety of formats for the benefit of policy makers, the communications media, the academic, business and financial communities, and the public at large. Over the past five years alone The Heritage Foundation has published more than 900 books, monographs, and studies, ranging in size from the 564-page government blueprint, *Mandate for Leadership II: Continuing the Conservative Revolution*, to more frequent "Critical Issues" monographs and the topical "Backgrounders" and "Issue Bulletins" of a dozen pages. At the start of 1981, Heritage published the 1,093-page *Mandate for Leadership: Policy Management in a Conservative Administration*. Heritage's other regular publications include the monthly *National Security Record* and the quarterlies *Education Update* and *Policy Review*.

In addition to the printed word, Heritage regularly brings together national and international opinion leaders and policy makers to discuss issues and ideas in a continuing series of seminars, lectures, debates, and briefings.

Heritage is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954, and is recognized as a publicly supported organization described in Section 509(a) (1) and 170(b) (1) (A) (vi) of the Code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of The Heritage Foundation through tax-deductible gifts.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002
U.S.A.
202/546-4400

TRADE LEGISLATION:
EFFECTS ON AMERICA'S COMPETITIVENESS
by Ambassador Clayton Yeutter

THE ADMINISTRATION'S VIEW OF COMPETITIVENESS

Over the past four or five months, "competitiveness" has become one of the most abused expressions in Washington, with nearly everyone trying to jump onto the competitiveness bandwagon. The word itself is one of those concepts that are abstractly desirable but ambiguously defined. Everyone is for it, of course, but different people mean different things when they use the word.

The ambiguity of the concept is exacerbated by the fact that the factors affecting competitiveness cut across many facets of our society. They involve the education of our children, the training of our workers, the management of our businesses, the investment in research and development by our industries, and the economic policies of our government, including the implementation of our trade laws.

There are some who would measure our competitiveness by the size of our trade deficit. According to that measurement alone, America's competitiveness would seem to have declined in recent years. Yet clearly that is not the case. The United States today is in a much stronger competitive position than during the late 1970s when we were plagued by soaring inflation, record high interest rates, and economic stagnation.

In the past four years, the United States has created ten million new jobs--ten times more than the combined economies of Japan, West Germany, England, France, Italy, and the Netherlands. We have beaten inflation, brought down interest rates, and increased productivity. So even though our trade deficit is larger than it was in the late 1970s, our economy as a whole is healthier and more competitive.

The trade balance falsely measures our national competitiveness because it is so heavily influenced by the economies of our trading partners, some of which have not grown as rapidly as ours, dampening

Ambassador Clayton Yeutter is the United States Trade Representative.

He spoke at The Heritage Foundation on March 13, 1987.

ISSN 0272-1155. Copyright 1987 by The Heritage Foundation.

demand there for our exports. Other potential customers are deeply in debt and cannot afford to increase their purchases of our exports.

This does not mean we should be unconcerned about the trade deficit--not by a long shot. The President's trade policy, spelled out in September 1985, has been aimed directly at the underlying causes of the trade deficit. Our record since September 1985 shows that there is a constructive alternative to protectionism. President Reagan's trade policy contains three basic elements:

First, we have been confronting unfair foreign trade practices more aggressively than has any administration in history. Through the tough enforcement of our laws, we have opened numerous overseas markets for American farmers and businesses.

Second, we are negotiating stronger international trade agreements that will provide more opportunities for American exporters to compete in foreign markets. The Uruguay Round and the Canada free trade talks are the primary examples.

Finally, we are working to improve the international economic climate for exports by cutting our own budget deficit, promoting growth in the economies of our trading partners, and seeking more stable and realistic exchange rate relationships.

Still, there is much more we can do to deal with our competitiveness problem. Competitiveness is a battle that has to be refought every day in the modern world's dynamic economy.

On February 19, President Reagan announced a comprehensive competitiveness initiative that will help America meet its international challenges. This initiative has many important elements, ranging from educational reforms and worker retraining efforts to better protection for intellectual property, increased investment in research and development, and continued government deregulation.

Perhaps most important of all, it reaffirms our commitment to cut the U.S. budget deficit and coordinate economic policies with our major trading partners.

All these elements are critical to the success of the initiative because reducing our trade deficit and keeping America competitive through the year 2000 will depend upon more than trade policy, narrowly defined. In announcing his initiative, President Reagan declared that we want America to be number one in the year 2000. In order to be there, our nation must make the best use of its human and capital resources; we must remain a nation in perpetual pursuit of excellence in all respects.

Today, however, I would like to concentrate on the trade portion of the President's competitiveness initiative. While we cannot solve all our trade problems with trade policy alone, it is extremely important that we have the best possible tools available to us in the trade area.

THE ADMINISTRATION'S TRADE PROPOSALS

The improvements to our trade laws that we have proposed as a part of the President's competitiveness initiative are numerous and substantive. As we developed our package, we applied a test to each provision, a test that we encourage Congress to apply to its own proposals. As we begin the debate on trade legislation, we should ask the following four questions about each provision:

- o Does it facilitate the competitiveness of U.S. industry?
- o Does it enhance our leverage in the Uruguay Round and in other international trade negotiations?
- o Does it conform to our international obligations?
- o Would it provoke our trading partners into retaliating against U.S. exports or enacting mirror legislation to the detriment of our producers?

Applying these standards to the Administration's bill demonstrates that our package will improve America's competitiveness as well as enhancing fair trade in the international marketplace--our overarching goal.

The cornerstone of the trade component of the President's competitiveness initiative is renewed authority to negotiate reductions in trade barriers and to have the results of these negotiations considered by Congress under "fast track" procedures. This authority will be needed to complete what we have started in the Uruguay Round talks at the General Agreement on Tariffs and Trade (GATT).

The Uruguay Round is the most significant multilateral trade undertaking in 40 years. Nothing less than the future effectiveness of the international trade system is at stake in these talks. A successful conclusion of the Uruguay Round will strengthen GATT and create new rules in areas of critical importance to the United States, including trade in agriculture and services, intellectual property protection, and investment.

Our current authority to have Congress consider nontariff barrier reductions on a fast track basis expires in January 1988. A renewal of that authority, plus the authority to negotiate tariff reductions, would strengthen the U.S. negotiating position during the Uruguay Round, and assure our trading partners of the seriousness of the U.S. commitment to this process.

Another cornerstone of the President's trade proposals is improvement in the procedures by which we grant import relief through Section 201 of the Trade Act of 1974--the provision under which industries can obtain relief if they have been injured by imports. President Reagan has provided more relief under Section 201 than any other President. Of sixteen cases filed since 1980, the International Trade Commission (ITC) found no injury in ten. Of the six in which the ITC found injury, the President provided substantial relief in four--motorcycles, specialty steel, carbon steel, and wood shakes and shingles. He declined to provide relief in only two cases: copper, where relief would have hurt copper fabricators accounting for six times as many jobs as copper producers; and footwear, which would have cost consumers an estimated \$3 billion, cost our exporters another \$3 billion and resulted in little improvement in the footwear industry's ability to compete with imports.

In his competitiveness initiative, the President proposes that the ITC examine whether an industry is reasonably likely to be competitive at the end of the import relief period. If not, it simply makes no sense to incur the high costs of import relief when there are no discernible benefits. But it does make sense to assure such an industry that it will receive essential adjustment assistance, which is what the Administration's bill does.

The President is proposing a new \$1 billion worker readjustment program to help an estimated 700,000 additional dislocated workers every year. If economic adjustment is going to occur, rather than trying to hold off the inevitable at great cost, we should devote our resources to easing the adjustment as much as possible for those who are affected.

President Reagan is also proposing to increase our ability to fight unfair trade practices under Section 301 of the Trade Act of 1974. Section 301 is probably our most effective trade policy tool, but we can make it even more effective. We propose to add reciprocal market access as a factor to be considered in 301 cases. This will increase our leverage in such disputes, which are often bilateral in nature.

Secondly, we are proposing a 24-month deadline on 301 cases that go through GATT dispute settlement procedures. Finally, we want to require the Administration to report on the commercial effects of Section 301 cases. The aim is to put additional pressure on both

parties to the negotiation to achieve results that "make the cash registers ring."

Another part of the President's proposal seeks to improve the antidumping and countervailing duty (CVD) laws, which deal with imports that are subsidized or dumped. The Reagan Administration has used these laws aggressively and effectively in more than 600 cases; our proposed modifications would enable us to be even more effective.

We are proposing to modify the antidumping law to establish a "predictable pricing" test for cases involving nonmarket economies. The President's proposal would also strengthen the government's ability to prevent foreign countries from evading or circumventing antidumping and CVD orders.

The Administration is also seeking several improvements in the Export Administration Act, to enable U.S. manufacturers to compete more easily in foreign markets when their exports are not sensitive from a national security standpoint.

The President also has made several proposals to improve our export performance: we would like an additional \$200 million for the President's "war chest" to attack foreign predatory financing practices; we seek to eliminate uncertainties and clarify ambiguities in the Foreign Corrupt Practices Act; we want to improve the Export Trading Company Act; and we want to establish an export promotion data and information system.

CONGRESSIONAL ALTERNATIVES

Despite all our progress on trade policy and despite the President's comprehensive competitiveness initiative, there are many in Congress who still are supporting trade bills containing very dangerous provisions.

In the House, the process got off to a bad start when the leadership reintroduced last year's H.R. 4800 trade package as this year's H.R. 3. As far as the Administration is concerned, that bill is no less objectionable this year than last year. Fortunately, there are Members on both sides of the aisle who are willing to work with us to modify that bill.

Yesterday, the Ways and Means Trade Subcommittee reported a bill that represents a substantial improvement over H.R. 3. The Subcommittee deserves credit for proceeding on a constructive, bipartisan basis. We hope that continued cooperation will produce further improvements during full committee consideration next week. While we welcome the many favorable changes, this is just the first

step in a long process. We still have major problems with some of the provisions.

In the Senate, the process is moving more slowly, but there too the legislative vehicle varies from the President's proposal, sometimes in unfortunate ways. S. 490 contains a number of serious flaws.

Both H.R. 3 and S. 490 propose undesirable limits on presidential discretion, particularly in Section 201 and 301 cases. Limiting the President's ability to consider all available options as he is trying to eliminate foreign unfair trade practices would not enhance our nation's competitiveness. Retaliation as a first resort would unnecessarily embroil us in trade wars, injuring our most competitive export industries.

The trade laws, although they could be improved by the modifications we have proposed, are fundamentally sound. President Reagan has proved this in case after case as we have knocked down unfair trade practices. He has threatened or implemented retaliation seven times in the last 18 months. But he took these steps as a last resort, only after carefully analyzing all the contingencies on a case-by-case basis and only after determining that such actions would open markets to American exports. If the Congress were to require retaliation, it would only close off markets, not open them, and would result in less trade, not more.

For example, S. 490 would require mandatory self-initiation of Section 301 cases and mandatory retaliation if the cases are not settled within an arbitrary time frame (which is too short). It is not possible to foresee all the contingencies that develop during trade negotiations, and these proposals, while increasing the likelihood of retaliation, also will reduce the chances of negotiating a trade liberalizing settlement. Many countries would prefer U.S. retaliation to opening their own markets. We should be intelligent enough not to let them off the hook that easily. Putting it another way, tough but flexible legislative language is infinitely preferable to tough but inflexible language.

Similarly, H.R. 3 and S. 490 would limit the President's discretion in awarding relief under Section 201. As I have already pointed out, President Reagan's record on Section 201 cases is solid. The next President also should have the authority and responsibility for deciding if and when to award import relief. As the only nationally elected official in government, only the President can weigh all the factors that go into determining whether or not it is in the national economic interest to do so. Accountability should remain with an elected official because import relief is not free. It has a tangible cost in the form of compensation to the exporting nations who are damaged or in retaliation against American exporters.

In addition, both the House and Senate proposals would saddle the federal government with industrial policy responsibilities. We should not put the government bureaucrat who decided not to de-ice the third rail of the Metro system in charge of deciding how U.S. industry should run their businesses. There is no justification for letting government officials make business decisions, and we should not start down that road. It is fraught with enormous danger.

These are just a few of the provisions in the House and Senate proposals to which we object. It is certainly not an exhaustive list. But these examples illustrate the general problem we see with many of the bills' provisions: they fail to pass the four tests I established at the beginning of this speech. Either they do not improve our competitiveness, they do not conform to our international obligations, they do not enhance our leverage at the Uruguay Round, or they do provoke retaliation or other market-closing responses in other nations.

Many of these provisions do not appear to be overtly protectionist, yet their undeniable effect would be to close off market opportunities just as exchange rate movements and other actions are unleashing such opportunities for the first time in several years. Protectionism in disguise is no less objectionable and no less damaging to our interests than protectionism in its most blatant forms. President Reagan's initiative is not designed to shield Americans from competition, but to enable them to meet the challenges of the coming decades.

Before I conclude, let me mention one proposal that is not in either H.R. 3 or S. 490, but which is widely expected to be offered as an amendment on the House or Senate floor. I am talking about the textile bill. President Reagan vetoed that bill last year and would almost certainly reject this year's incarnation. It is pure protectionism and its attachment to a trade bill would kill the bipartisan, cooperative spirit needed to produce growth-oriented, market-opening legislation. We simply cannot accept legislation that would provoke retaliation against American exporters, destroy the Uruguay Round, and embroil us in dozens of trade wars.

CONCLUSION

It would be extremely dangerous to attempt to solve the U.S. trade deficit, which is caused by a complex series of factors, including fundamental macroeconomic issues, by focusing on trade policy alone. That is why the President's competitiveness initiative is so broad-based, and why we have difficulties with congressional proposals which constitute a futile attempt to eliminate the trade deficit through trade policy alone.

Nevertheless, we sincerely hope that with your help we can convince the Congress to take a more comprehensive and more responsible approach to our trade deficit and competitiveness problems than some of the current legislative proposals would suggest.

President Reagan's competitiveness initiative challenges Americans to be the best they can be. It calls for excellence in the classrooms, in the factories, on the farms, in the board rooms, and in the laboratories. It is an ambitious undertaking, but the time to start is now. We owe it to our children to leave them a national legacy of opportunity and hope.

#