The Heritage Foundation Backgrounder

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The Center for International Economic Growth

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A U.S. STRATEGY FOR GATT

INTRODUCTION

The multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT), called the Uruguay Round since they were launched in Punta del Este, Uruguay in 1986, are in disarray. No agreement was reached by the scheduled December 7 deadline. The Bush Administration has indicated that it will extend the talks at least through the end of March, which is when special negotiating authority granted to the Administration by Congress runs out, if the European Community offers concessions in its position on agriculture trade. During this extra time a last-minute compromise might be reached. A new GATT agreement could reduce barriers to American exports of goods and services, better protect American patents and other intellectual property, remove restrictions on foreign investments and eliminate protection and subsidies for farm products. According to U.S. Trade Representative Carla Hills, a successful GATT round agreement could expand economic output by as much as $4 trillion by the year 2000. Failure to reach an agreement, by contrast, could trigger a spasm of trade protectionism. With the U.S. economy already weak and fighting the damage imposed by increased taxes, a trade war would push America into a deep economic recession or even a depression.

The Farm Barrier. Agriculture is the major issue preventing a GATT agreement. The European Community (EC), which spent an estimated $29 billion in agricultural subsidies in 1989[1], refuses to meet demands by other GATT members for significant farm sector reform. U.S. Secretary of Agriculture Clayton Yeutter commented last month in Brussels that there was "zero support for the European position" from non-EC nations attending the meeting.[2] The EC claims that the U.S. proposal for a 75 percent to 90 percent reduction in tariffs will endanger the livelihoods of the 10 million farmers within the Community.

Many less developed countries counter that EC agricultural policies keep Third World farmers poor and destitute. EC export subsidies, it is correctly argued, drive down the world price of agricultural goods, making it unprofitable for less developed countries to export their products. Without an agreement on agriculture, less developed countries might pull out of the GATT talks.

High Stakes. Trade liberalization would benefit the international trading system in general and America in particular. According to Gary Hufbauer, an economist at the Washington-based Institute for International Economics, even a moderately successful conclusion of the talks will expand annual world trade by $100 billion. U.S. Trade Representative Hills says that over the next decade America could enjoy a $200 billion rise in exports to less developed countries alone if the GATT round succeeds. A deadlock in the negotiations, however, could trigger a worldwide spasm of damaging trade protectionism. In the 1930s, trade barriers helped cause and sustain the Great Depression. A successful GATT agreement thus is vital to American interests.

The Bush Administration should agree to an extension of GATT negotiations and aggressively work to resolve its differences with other member nations during that period. Further, the U.S. should not let EC recalcitrance over agricultural trade stand in the way of a GATT agreement. While such an agreement would not include all of the privisions that the U.S. seeks, it still would liberalize trade in services, open markets further to foreign investments, better protect intellectual property rights, and lower tariff rates. All of these reforms would help U.S. businesses. The U.S. would be better off with a more limited GATT agreement than with no agreement at all.

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1 From the European Commission's report, *Agricultural Situation on the Community 1989*, Table T 86, 3.4.3. This figure includes only direct government internal supports and export subsidies. Other figures that include additional supports, such as government funded research and administrative costs, raise the total in 1989 to $53 billion.

2 Reported in the *Wall Street Journal*, December 4, 1990, p. A4.

The U.S., meanwhile, can continue to pursue trade liberalization through other means. Washington, for instance, should initiate negotiations for free trade areas with countries wishing completely opened markets. The U.S. currently is phasing in such arrangements with Canada and with Israel, and is beginning negotiations with Mexico. Other interested countries include Australia, Chile, Guatemala, Panama, Singapore, the Republic of China on Taiwan and Thailand. Free trade areas also should be offered to Eastern European nations who establish democracies and free markets.

In addition, the U.S. should begin unilaterally to remove its own trade barriers to such products as machine tools, steel, sugar and textiles. This protection costs the American consumer billions of dollars a year.

With the U.S. sliding into recession, free trade is vital for sustaining economic growth. The stakes are global and an agreement is necessary to prevent a collapse of the world trading system.

THE ORIGINS AND OBJECTIVES OF GATT

The shrinking world trade that was created by protectionism starting in 1930 was one of the principal causes of the Great Depression. To avoid a repeat of this, after World War II the Western democracies committed themselves to trade liberalization. In 1947, the 24 countries meeting in Bretton Woods, New Hampshire, signed the General Agreement on Tariffs and Trade (GATT), liberalizing some trade immediately and establishing a mechanism for future negotiations to remove other trade barriers.

Embodied in the original GATT agreement is the concept of Most Favored Nation status. This term is extraordinarily misleading, for it implies that some nations are granted special favors. It is just the opposite. It means that every participating nation gets the same trade treatment as that given to the "most favored" nation. Thus if barriers are lowered for one nation, all other participating nations automatically have barriers lowered for them. Through the most favored nation concept each member of GATT agrees to give equal access to its markets, without discrimination, to all members.[3] Today, some 168 nations receive most favored nation status from America.

Building on the original commitment to freer trade, there have been seven completed rounds of GATT negotiations since 1947. These are:

- **The Geneva Round of 1947.** There were some 45,000 agreements in this round, reducing tariffs on manufactured goods and some agricultural products.

3 Kenneth W. Dam, *The GATT: Law and the International Economic Organization*, Chicago, University of Chicago Press, 1970.

- **The Annecy, France, Round of 1949,** and the **Torquay, France, Round of 1951.** These mainly admitted new member countries to GATT. The original members also negotiated an additional 13,000 tariff concessions.

- **The Geneva Round of 1956.** This round also mainly admitted new members; most of the discussion concerned admitting Japan.[4]

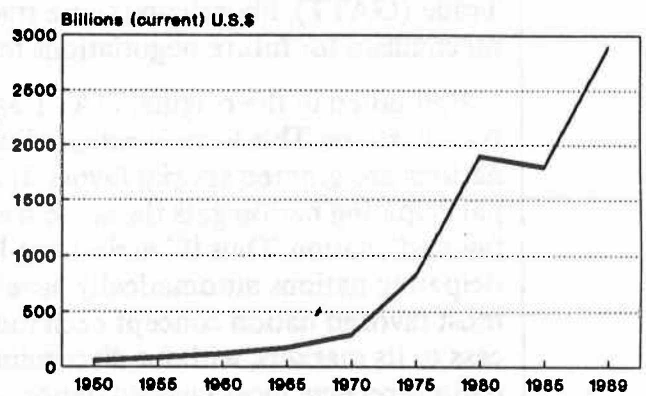
- **The Dillon** (named after U.S. Secretary of Treasury Douglas C. Dillon) Round of 1960 to 1962. This resulted in a 10 percent reduction in tariffs that had been imposed on U.S. exports and other total world tariff reductions equalling $40 billion.

- **The Kennedy Round of 1963 to 1967.** Cited as one of the most successful GATT rounds, it cut tariffs of non-agricultural products by about 35 percent, affecting approximately 80 percent of the dutiable products of the industrialized world.[5] In addition, reductions of up to 20 percent were made on agricultural products.

- **The Tokyo Round of 1973 to 1979.** Though its achievements were minimal, there was some reduction of duties and tariffs. The main result was a framework for the current GATT negotiations.

- **The Uruguay Round, launched in 1986.** The Uruguay Round is intended to achieve two broad goals. The first is to prevent increased protectionist pressures from undermining the multilateral trading system. Of particular urgency is to halt increases in protectionism by less developed countries, partly triggered by

Total World Exports
1950-1989



Source: *International Financial Statistics*

4 Several countries opposed Japan's admission into GATT because of fears of the effects low Japanese wages would have on other countries. Under Article XXXV of the GATT charter, these countries were allowed to withhold trading privileges to Japan indefinitely. It was not until the late 1960s that most of these countries fully accepted Japan.

5 Gilbert R. Winham, *International Trade and the Tokyo Round*, Princeton University Press, New Jersey, 1986, p. 61.

their mounting international debt and political unrest.

The second goal is to bring the GATT up to date by extending its rules to cover areas of disputes that had eluded past rounds. Among these are growing trade protection of farm products. Government subsidies for agricultural products last year cost would consumers $245 billion.[6] In textiles and apparel trade, protectionism costs American consumers between $15 billion and $30 billion annually from 1986 through 1989. New rules also are needed for international investment, the international sale of services, and patent protection for intellectual property. The positions taken by the various countries in the current round reveal the benefits to be gained from and the barriers to a successful agreement.

AGRICULTURE

An agreement on agriculture, which accounts for 13 percent of world trade, is the litmus test of a successful Uruguay Round.[7] Past rounds have, for the most part, avoided this crucial topic. Because most participants in the Uruguay Round have invested considerable time and effort trying to reach a consensus in agricultural products, the failure to reach agreement here so far has unraveled the rest of the negotiations. Reforms in the Uruguay Round seek to phase out government supported trade protection and subsidies for agricultural products.

There are two diverging factions on this issue at GATT. These are:

1) **The U.S. and the Cairns Group.**[8] These nations want to replace government protection of farm products with free trade. This would require an agreement ending import restraints, quotas, and subsidies. These for a short time would be replaced by tariffs.[9]

2) **The European Community, Austria, Japan, the Nordic Group, and Switzerland.**[10] This group strongly resists the objective of the U.S. and Cairns group. Instead of free trade, this group's counter-offer includes merely trimming protection somewhat. Its idea is to consolidate all forms of protection, with an agreement to reduce the

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6 *Agricultural Policies, Markets, and Trade: Monitoring and Outlook 1990*, Organization for Economic Cooperation and Development, Paris, France, 1990.

7 Dale Hathaway, *Agriculture and the GATT: Rewriting the Rules*. Policy Analyses in International Economics No. 20, Institute for International Economics, Washington, D.C., September 1987.

8 The Cairns Group, so called because of the meeting that took place in Cairns, Australia, in 1986, includes 14 countries that export agricultural products. The members are: Argentina, Australia, Brazil, Canada, Chile, Columbia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

9 See "Meanwhile in Geneva," *The Economist*, September 22, 1990, p. 29.

10 The Nordic Group consists of Finland, Norway, and Sweden.

AGRICULTURAL SUPPORTS 1989
(Producer Subsidy Equivalent)*

COUNTRY	Total Agricultural Production (billions of U.S.$)	Total Subsidies (billions of U.S.$)	Subsidies as % of Total Value
New Zealand	4	0.2	5
Australia	13	1.3	10
United States	119.3	32.2	27
Canada	14.9	5.2	35
European Community	139.5	53.0	38
Sweden	4.7	2.2	47
Japan	46.6	33.6	72
Finland	6.1	4.4	72
Norway	3.5	2.6	74
Switzerland	5.6	4.2	75

Source: Organization for Economic Cooperation and Development.

* The producer subsidy equivalent includes the internal supports and export subsidies mentioned in the European Community table at the conclusion of this study, but also additional supports like government-funded research and administrative costs.

levels over time. This would allow a country to choose which kind of support to reduce, leaving many of the most disputed practices untouched.

There are three main agriculture issues under consideration in the current round: internal supports and export competition, market access, and health standards.

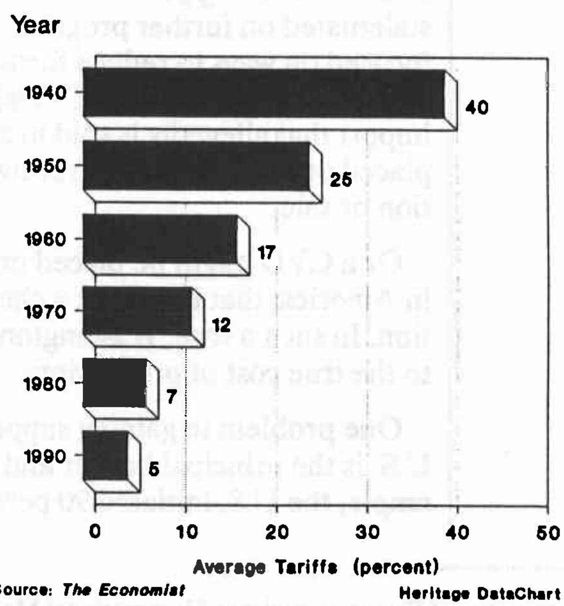
Internal Supports and Export Competition. Governments subsidize agricultural production in almost every major producing country (see table). This includes direct subsidies, export credits, and low interest loans. This support distorts world trade and is the heart of many international trade disputes. Government subsidies and supports also have been costly to consumers.

A central goal of reformers in the current negotiations has been to end subsidies in agriculture, especially those provided by the European Community (EC) and America, allowing competitive market forces to set world and domestic prices based on supply and demand. Most of the negotiations center on how these reductions will be achieved, monitored, and enforced. The group led by the EC has agreed in principle to reduce subsidies, but it wants to avoid specific limits. The U.S., on the other hand, wants specified reductions.[11]

Market Access. Most major agricultural producers protect their domestic sectors. America, for example, protects cotton, dairy products, peanuts, and sugar; Japan protects rice; Canada protects dairy products and poultry; and the EC protects beef. These policies restrict market access and maintain higher-than-world market prices in the home country. The goal of the vast majority of GATT members is to ban these practices, replacing them with tariffs which would be reduced by a specific amount every year until they are completely eliminated. The EC and Japan are resisting these reforms. A successful agreement on agriculture will require the EC and Japan to accept the American and Cairns plan.

Health Standards. Uruguay Round reformers hope to create a consensus on health standard practices that in some cases interfere with the free trade of agricultural goods. Typical of this problem is the dispute between America and the EC over American beef produced with growth hormones. In 1987 the EC imposed restrictions on American hormone-fed beef, claiming that this product presented a health risk. This claim is widely disputed. Since almost the entire American beef industry used growth hormones, the EC's health restrictions prevented the U.S. from selling beef in the EC. In retaliation, the Reagan Administration imposed a 100 percent tariff on EC beef, fruit juices, instant coffee, pet food, and tomatoes. Most of these restrictions remain in force.

Average Tariff on Manufactured Imports for Advanced Industrial Democracies



Source: *The Economist* Heritage DataChart

11 Reported by Neal Blewett, "Agricultural Talks: Round and Round," *World Link Magazine*, September 10, 1990, p. 20.

TARIFF AND SUBSIDIES

Tariff rates have been reduced in each GATT round since 1947. This has helped increase world trade from $100 billion annually in the 1950s to $3 trillion in 1989.[12] Subsidies for manufactured goods and services also now are coming under increasing criticism as many countries realize their damaging effects.

The U.S. and GATT Plans. Uruguay Round negotiators essentially have agreed to reduce tariffs by 33 percent.[13] But, the U.S. is pushing for deeper cuts, offering to reduce its own tariffs by 43 percent if other countries do so as well. The U.S. plan also eventually would eliminate most tariffs. Called the "zero to zero" option, the plan would require all participants to reduce their tariffs to zero on specific products.[14] The "zero to zero" plan offered by U.S. negotiators was first put forward by a group formed of 100 leading American businesses who would benefit from reduced tariffs.[15] This group pointed out that the U.S. still imposes tariffs on some 8,753 different products, and that although the U.S. average tariff rate is about 5 percent, there are many imports exposed to extremely high levies. Examples: tobacco products are levied a 458.3 percent tariff; certain wrist watches are levied a 151.2 percent tariff; certain textile and apparel products are levied tariffs ranging from 15 percent to 70 percent.

Countervailing Duties. While there has been modest progress in recent years in reducing government subsidies to exporters, the Uruguay Round is stalemated on further progress. Indeed, the negotiations are no longer focused on ways to reduce further the use of subsidies, but rather on the use of countervailing duties (CVDs). For the U.S., a CVD is a levy placed on an import that allegedly is sold in an unfair manner. Such a penalty might be placed on a good that has received a government subsidy either for its production or sale.

Or a CVD might be placed on an imported product that is being "dumped" in America, that is, sold at a cheaper price than the original cost of production. In such a case, Washington often imposes a duty to raise the price closer to the true cost of production.

One problem in gaining support for the elimination of CVDs is that the U.S. is the principal backer and user of CVDs. Between 1980 and 1986, for example, the U.S. initiated 90 percent of CVD cases worldwide.[16] Critics of

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12 "International Financial Statistics," International Monetary Fund 1990 Yearbook, Washington, D.C.

13 Jeffrey J. Schott, "The Global Trade Negotiations: What Can Be Achieved?" *Policy Analysis in International Economics* No. 29, Institute for International Economics, September 1990, p. 17.

14 "U.S. Offers to Cut Tariffs by 43%," *Financial Times*, October 25, 1990, p. 3.

15 "Radical Surgery Required for Tariffs?" *Washington Times*, October 22, 1990, p. G4.

16 Schott, *op. cit.*, p. 94.

Washington's CVD strategy point out that "dumping" is a very subjective term and is often used as a cover for American protectionism. They point out, for example, that the U.S. view on dumping routinely does not take into account that goods justifiably may be sold at prices below cost when there are surplus supplies, at least for a limited time. In addition, critics of CVDs used against alleged dumping claim that it is practically impossible to compare the price of products in two countries because there are subtle legitimate cost differences in what might appear to be identical products. Example: special credit arrangements and warranties often are overlooked when calculating production costs.[17] Finally, the U.S. often defines dumping in a way calculated to make imports appear to be priced unfairly, even when this is not the case.

TEXTILES AND APPAREL

Despite the reduction in tariffs since 1947, there has been a steady increase in non-tariff barriers and quotas. Automobiles, steel, sugar, and textiles, are examples of products facing quotas or so-called "voluntary" restraint agreements in the U.S. Such practices impose massive economic costs on the citizens of the countries erecting the barriers. Example: U.S. quotas on steel imports cost the American consumer an estimated $3.5 billion annually between 1985 and 1989.[18] Example: U.S. quotas on textiles and apparel led to price increases of at least $15 billion and as much as $30 billion annually for the American consumer from 1986 through 1989.[19] Restrictions on textile and apparel trade are one of the most damaging and growing forms of non-tariff barrier.

The Multi-Fiber Arrangement (MFA). In 1974, in a reversal of the general pattern of freer trade achieved by the GATT, 55 major textile and apparel producing countries signed the Multi-Fiber Arrangement to restrict trade in textile and apparel products. This industry had been protected since 1957 when the U.S. negotiated a voluntary export restraint pact with Japan. MFA sharply increased protection. It allowed signatory countries to set up bilateral quota agreements. As a result, America has some 40 agreements with less developed countries and with Japan.[20] Reformers in GATT are seeking to end these practices. The various plans to deal with textiles are:

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17 See "Anti-Dumpings Dirty Secrets," *Wall Street Journal*, October 15, 1900, p. A16.

18 Studies show the cost of protection in steel to the U.S. consumer to be about $2.5 billion to $3.5 billion annually. For more information see, "A General Equilibrium Analysis of the Welfare and Employment Effects of U.S. Quotas in Textiles, Autos, and Steel," by David G. Tarr, the Federal Trade Commission, February 1989.

19 *Ibid.* for the $15 billion estimate. Members of President Reagan's Council of Economic Advisors estimated the cost to be $30 billion at various times in the late 1980s.

20 Thomas Grennes, "The Collision Course on Textile Quotas," Cato Institute, *Policy Analysis* No. 140, Cato Institute, September 12, 1990.

1) **The U.S. Plan.** Washington proposes that the quota system in textiles be phased out in the next ten years. In the interim, some form of protectionism, either tariffs or a global quota system, would be established.

2) **The Japanese Plan.** Tokyo's proposal calls for the final termination of the MFA on July 31, 1991, the date on which the agreement expires. Japanese negotiators propose a transition period, from the expiration date in 1991 through 1999, during which quotas gradually would be increased until there would be no restriction on trade. A key and controversial feature of the Japanese proposal is the means by which quota expansion would be determined. The proposal would establish a multilateral review board to oversee the transition and ensure that no participant is adversely affected by the increase in quotas. The danger is that such a review board might brake the reform process.

3) **The European Community Plan.** The EC proposal sets no date for terminating quotas in textiles and apparel. In essence, the EC proposal simply gives each importing country discretion to convert quotas to tariffs or other forms of protection and to determine its own methods and timetable for eliminating its protectionist policies.

4) **The International Textiles and Clothing Bureau Plan.** This group consists of the major Third World countries producing textiles and apparel. Its proposal calls for the final termination of MFA on its scheduled 1991 expiration, followed by raising the quotas over six years until they are gone. Quotas would be allowed to grow 6 percent in the first year, 8 percent in the second, 11 percent in the third, 15 percent in the fourth, 20 percent in the fifth, and 25 percent in the sixth year.

Policy Implications of the Proposals

The U.S. proposal arguably is the least reform oriented, due to its long transition period. Further, the cost to American consumers of the global quota system option is estimated at $26.1 billion in 1992, rising to $36.6 billion by 2000.

The EC and Japanese proposals, too, have drawbacks. The EC proposal, for example, does not set a specific target date for elimination of protection. Without agreement on a termination date there is no guarantee that protection will end. The Japanese proposal for a multilateral review board, meanwhile, is very vague and could prove ineffective. The board also could be used by protectionist countries to slow reform. Perhaps the best proposal is made by the coalition of less developed countries. Its short transition period, however, may make the proposal unacceptable to countries with large, politically powerful, yet inefficient textile sectors.

NEW AGENDA ITEMS IN THE URUGUAY ROUND

In addition to wrestling with these basic issues, the GATT negotiators are considering reforms in a number of other areas. These include:

Trade in Services

Services include such industries as banking, civil aviation, communications, engineering, finance, and shipping. It is estimated that world trading of services is now worth $600 billion annually.[21] Current restrictions make the trading of services across most borders difficult and sometimes impossible. There are two major proposals under discussion in the Uruguay Round to deal with this. The U.S. plan would set rules and guidelines in a number of areas. It would secure rights of service sector businesses to establish overseas operations and to trade in services. It would require countries to treat foreign services providers in the same manner as domestic companies and would prohibit discrimination by governments against foreign providers of services.[22] In 1990, however, the U.S. began to step back from its own reform proposals for several key industrial sectors. This was due to pressure from U.S. civil aviation, shipping, and telecommunications interests, which argued that increased competition would destroy their businesses.[23] The EC plan would liberalize service trade in some areas, but would exclude audio-visual industry, including movies, films, and television, from reforms.

Intellectual Property Protection

The creation of new ideas with commercial value generates "assets" called intellectual property. In most cases these ideas receive patent protection so other companies cannot market the new idea or resulting inventions without permission. Patents usually are given for a period long enough to allow the innovating companies to recover their investment. When the patent expires, competitors can market the product.

Many less developed countries fail to protect intellectual property within their borders. The result: many firms from developed countries refuse to invest in the less developed countries for fear they will have technical ideas stolen. Less developed countries thus deprive themselves of important industries and so harm their own economies.[24] Moreover, the U.S. Internation-

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21 "A Disservice to the GATT," *Financial Times*, October 24, 1990, p. 14.

22 "U.S. Unveils Plan to Liberalize Trade in Services," *Financial Times*, October 24, 1990, p. 8.

23 "U.S. Is Changing its Tune on Liberalization of Trade," *New York Times*, October 29, 1990, p. D4.

24 See Mark A. Franz, "New Threats to Intellectual Property Rights," Heritage Foundation *Backgrounder* No. 761, March 29, 1990.

al Trade Commission estimates that the failure of other countries to protect intellectual property rights costs American businesses $24 billion a year.[25] For example, the production and sale of goods by foreign companies using stolen American patents cut into the sales of these products by the owners of the patent.

The U.S. argues that the current GATT dispute settlement mechanism for property rights cases is inadequate. The U.S. proposes establishment of stricter international standards to protect patents, trademarks, and copyrights, and increased law enforcement to prosecute counterfeiters and violators of the patent laws.

Many less developed countries oppose the U.S. plan. They argue that intellectual property protection actually is a barrier to international trade. They are holding out for special exemptions from any GATT agreement on property rights. The developed countries counter that Third World leaders favor such exemptions so that they can steal Western patents.

The Uruguay Round negotiations in this area are moving slowly. Many less developed countries are tying intellectual property protection to liberalization of textile and agricultural trade.

International Foreign Investment

Foreign investment provides business opportunities in other markets and spurs economic growth in recipient countries. Yet many countries impose restrictions on international foreign investment. These countries treat foreign investment as a privilege granted to the investor. In exchange for "allowing" a foreign business to invest capital in their economy, governments often impose certain requirements. Local content requirements are one such practice. These require that a specified share of a product's components be purchased from local suppliers. In a country with a 40 percent local content requirement, for instance, the investor must purchase components worth 40 percent of the final product from local suppliers. This may be in the form of labor, raw materials, or manufactured parts. This practice often is a strong disincentive for foreign investment. Many companies have little inclination to open factories in less developed countries if they must buy local parts that are inferior to other sources of supply or are more costly.

A special GATT negotiating committee is considering the elimination of what are called "trade related investment measures," which restrict foreign investment. The U.S. seeks to eliminate most restrictions, such as local content requirements, limits on equity participation in local companies, export performance requirements and restrictions on taking profits out of a country. The

25 "Foreign Protection of Intellectual Property and Its Effect on U.S. Industry and Trade," International Trade Commission, Washington, D.C. 1988.

EC and the Japanese, however, would still permit countries to limit purchases by foreign businesses of stock in local companies. The EC, in addition, would allow countries to continue to force foreign investors to transfer technology to local businesses in the host country.

AFTER THE URUGUAY ROUND

As the Uruguay Round comes to a conclusion – successful or otherwise – American policy makers must maintain the momentum for opening the world trading system. Retaliation against other countries for alleged unfair trade practices rarely leads to the removal of trade barriers. Usually such a policy gives protectionists in the countries affected an excuse to retain trade barriers against the U.S. In the worst case, in the 1930s, such policies helped create and sustain the Great Depression. A protectionist response to a failed GATT round would harm both American consumers and industries and would assure a deep and lingering recession for the future.

The Bush Administration should seek an extension of the GATT round through at least the end of March 1991, which is when special negotiating authority granted to the Administration by Congress expires. During this period the Administration should seek the best GATT agreement possible, even if it falls short of America's expectations and even if the EC will not agree to the complete elimination of barriers to agricultural trade. Even an imperfect GATT agreement could liberalize trade in services, foreign investment policies, and lower tariff barriers. This would be better for the U.S. than no agreement at all.

Seeking Regional Agreements. With or without an agreement, America should seek trade liberalization through other means. Washington, for example, more energetically should seek regional trade agreements with any interested trading partners. In particular, a Free Trade Area (FTA), such as the one being phased in between the U.S. and Canada, should be extended to cover the entire Western Hemisphere. An FTA requires all countries involved to remove all tariff barriers and most non-tariff barriers to each other's trade. The Bush Administration already has extended an invitation to any country that wishes to negotiate such an agreement. Negotiations are scheduled to begin with Mexico. Chile, and Panama also have requested negotiations. Other Central American and Caribbean countries have expressed interest in such an arrangement.

The U.S. also should invite other countries to enter FTA agreements. The Pacific Rim countries of Australia, the Republic of China on Taiwan, Singapore, and Thailand have asked for such agreements. The U.S. too should extend invitations for FTAs to Eastern European countries that successfully establish democracies and free market economies.

The FTA approach will pressure those countries that have blocked major GATT reforms. The EC, for example, sees Eastern Europe as a region in which it will be the dominant investor and trader. Yet the EC is unwilling to open its markets to Eastern European agricultural and other products. If the U.S. establishes FTAs with Eastern European countries, the EC will find it more difficult to compete in markets with which they historically had strong economic ties.

Incentives for Membership. Some fear that bilateral or area-wide FTA agreements could create a world trading system separated into powerful trading blocs with free trade internally but protectionism externally. This is unlikely, however, since FTAs do not require each member to have the same trade policies towards non-members. Agreements such as the U.S.-Canada FTA in fact offer incentives for other countries to join the group. The lure of membership also would provide a powerful stimulus for less developed countries to reform their economies, a necessary requirement to join a free trade arrangement.

The U.S. also should take unilateral steps to liberalize its own market. It is not a "concession" to foreigners when the U.S. allows its businesses and consumers to purchase foreign products. America should start by dismantling its quota systems governing automobiles, textiles, and sugar. Opening the American market in these areas would provide more consumer choices and lower prices for Americans, and stimulate the healthy international competition needed to make American industries more efficient.

CONCLUSION

A host of important world trade issues are being considered in the current GATT round. Failure to complete the round risks a world-wide binge of protectionism. There are many stumbling blocks, from the EC's intransigence on agriculture to unwise American positions on textiles and services. The Bush Administration should continue to work for a successful agreement. But even if no agreement is possible, the U.S. and the world need not repeat the mistakes of the 1930s, sentencing millions to poverty and lower living standards as a result of destructive trade wars. Free trade is vital for a strong U.S. economy. Currently, export sales are almost the only thing preventing a recession. Increased exports in 1991 will be needed to sustain the American economy.

The U.S. should pursue free trade, whether through GATT or through FTAs with individual countries, while eliminating its own trade restrictions. To do otherwise would risk a damaging slowdown in international trade.

Bryan T. Johnson
Policy Analyst

THE EUROPEAN COMMUNITY'S AGRICULTURAL SUPPORT POLICY

EXPORT SUBSIDIES

in U.S. $ millions

	1988	1989*
Beef and veal	908	1,331
Cereals	5,229	4,553
Dairy	3,644	2,691
Eggs and poultry	230	243
Fruits and vegetables	76	95
Oil seed	29	26
Olive oil	76	137
Pig meats	203	95
Sugar	1,851	1,619
Tobacco	51	54
Wines	51	50

INTERNAL SUPPORTS

in U.S. $ millions

	1988	1989*
Beef and veal	2,018	1,520
Cereals	3,645	3,055
Dairy	3,430	2,710
Fruits and vegetables	761	1,249
Oil seed	3,484	3,216
Olive oil	1,041	1,806
Sheep and goat products	1,529	1,601
Sugar	609	695
Tobacco	1,091	1,020
Wines	1,776	1,565

* Estimated.

Source: *Agricultural Situation on the Community Table* T.86.3.4.3, European Commission

GATT's 99 Members on August 1, 1990

Antigua and Barbuda
Argentina
Australia
Bangladesh
Barbados
Belgium
Belize
Benin
Bolivia
Botswana
Brazil
Burkina Faso
Burundi
Cameroon
Canada
Central African Republic
Chad
Chile
Columbia
Congo
Costa Rica
Côte d'Ivoire
Cuba
Cyprus
Czecho-slovakia
Denmark
Dominican Republic
Egypt
Finland
France
Gabon
Gambia
Germany, Fed. Rep.
Ghana
Greece
Guyana
Haiti
Hong Kong
Hungary
Iceland
Indonesia
Ireland
Israel
Italy
Jamaica
Japan
Kenya
Korea, Rep.
Kuwait
Lesotho
Luxembourg
Madagascar
Malawi
Malaysia
Maldives
Malta
Mauritania
Mauritius
Mexico
Morocco
Myanmer (Burma)
Netherlands
New Zealand
Nicaragua
Niger
Nigeria
Norway
Pakistan
Peru
Philippines
Poland
Portugal
Romania
Rwanda
Senegal
Sierra Leone
Singapore
South Africa
Spain
Sri Lanka
Suriname
Sweden
Switzerland
Tanzania
Thailand
Togo
Trinidad and Tobago
Tunisia
Turkey
Uganda
United Kingdom
United States
Uruguay
Yugoslavia
Zaire
Zambia
Zimbabwe

Source: *Business America*