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THE UNITED STATES TRADE IMBALANCE: THE EXPORT SIDE

INTRODUCTION

The U.S. merchandise trade deficit has deteriorated rapidly from a $9 billion surplus in 1975 to a deficit of $34.19 billion in 1978. With the conclusion of the Multilateral Trade Negotiations anticipated this spring and the submission of its trade liberalization package to the U.S. Congress for ratification, it seems appropriate to examine the adequacy of current American trade policies with respect to their impact on the trade balance. This paper focuses on the export side of the trade account, reviewing legislation and policy actions which appear to hamper achievement of the goals set forth in President Carter's September 26, 1978 announcement of a new export policy. The necessity of formulating a concise and consistent export policy becomes clear while the difficulty in performing such a task, which often requires decisions based on unpopular, monetarily intangible gains, remains.

AN OVERVIEW

Discussion of the U.S. balance of trade deficit has increased since the oil boycott and OPEC price increases of 1973-1974. Yet, despite the attention which has been given to the matter, the U.S. trade balance position continues to deteriorate. Using the Department of Commerce figures for the merchandise trade balance, simply the difference in value between commodity exports and imports (excluding foreign aid and military sales), an alarming shift occurred from a $9 billion surplus in 1975 to a $31 billion net export deficit in 1977. The latest figures released for 1978 reveal a $28.45

billion trade deficit. Thus, the U.S. year-end 1978 trade imbalance is again of staggering proportions.

The U.S. trade deficit in 1971, amounting to $2.7 billion, marked the first time since 1888 that the nation's imports exceeded its exports.[1] In the aftermath of World War II, with the U.S. fostering Marshall Plan aid and other reconstructive measures, a U.S. trade deficit could have been looked upon as another means to assist American allies in furthering their economic recovery. Today, however, with the growth of worldwide economic interdependency, the tenuous position of the dollar in the international money markets, the questionable technological superiority of the U.S., the anticipated U.S. constraints aimed at curbing domestic inflation and no foreseeable improvement in the trade balance, the deficit is increasingly accepted as an economic trend disadvantageous for the United States. Attention of the President and the Congress toward addressing this "problem" seems warranted.

The initial response to the question of why the U.S. is running such a large trade deficit invariably stresses the growing expense of foreign oil imports, the largest single component of America's imports. The cost of oil purchased by the United States rose from $7.6 billion in 1974 to $41.5 billion in 1977, accounting for thirty percent of all imports, and decreased only slightly to $39.5 billion in 1978.[2] Assuming that oil prices remain constant in real dollar terms, that OPEC oil supplies continue to meet demands, and allowing for conservation measures and increased exploration, the Exxon company estimates that from the early 1980's oil and gas imports by the U.S. will be supplying approximately one-quarter of U.S. energy requirements.[3] According to a CIA report, in 1978 the U.S. imported 47 percent of its energy needs. The Exxon Company study projects a slight increase in the import percentage into 1980 with the level remaining high through the 1980's.

Comparisons are often made with the energy requirements of Japan and Germany, citing that while they, too, are dependent on foreign oil imports, they maintain a balance of trade surplus. Japan, for instance, had an overall trade surplus of $17.3 billion

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1. Congressional Quarterly, Congress and the Nation, Vol. IV (1973-1976), p. 128.

2. U.S. Congress, Senate, Committee on Banking, Housing and Urban Affairs, Subcommittee on International Finance, Hearings on Export Policy, Part 2, 95th Congress, 2nd session, February 23, 1978, p. 70.

3. Exxon Background Service, World Energy Outlook, April 1978, p. 42.

in 1977, with a $8.1 billion trade surplus vis-a-vis the U.S. Japan has virtually no domestic oil supplies and imported oil which accounted for 74 percent of its energy supply in 1977. It is expected that Japan will be importing 61 percent of her oil requirements in 1990. Therefore, the observation of Japan's successful trade balance in light of heavy oil imports should lead one to look at other facets of the U.S. trade for ways to ameliorate the U.S. trade deficit situation.

Upon closer inspection of the components of the U.S. negative trade balance, one finds an unimpressive U.S. export growth rate during the past several years. It has been posited by several government officials that the recent failure of U.S. exports to expand, rather than the increase in petroleum imports, has been a major factor responsible for the trade deficit. In 1977 exports grew only 5.2 percent in contrast to an 18 percent growth in non-oil imports.[4]

The U.S. balance of trade, viewed on a bilateral basis for the year 1978, shows the following: the U.S. trade deficit with the OPEC nations narrowed to $14.05 billion. With the non-OPEC developing nations, the U.S. trade deficit decreased to $4.33 billion. The balance with Japan weakened further as the deficit on the U.S. side rose from $8.1 billion to $11.57 billion. The U.S. position vis-a-vis Canada changed significantly as the deficit grew to $5.16 billion. Moreover, the trade surplus with the Western European countries fell from $6.2 billion to $3.45 billion.[5]

Various factors involved in the deteriorating export abilities of the U.S. and the growing balance of payments problems are examined below.

IMPORTANCE OF EXPORTS

Even though America's major trading partners have not kept pace with the recent U.S. economic growth, thus stagnating foreign demand for U.S. exports, the absence of a definitive U.S. "export promotion policy" contributes further to the negative trade balance. America has never viewed exportation as an economic necessity. With exports accounting for approximately 7 percent of U.S. GNP as compared to 14 and 22 percent of Japan's GNP and Germany's GNP respectively, there has been an obvious difference in the amount of

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4. Robert Samuelson, "The Move to Push U.S. Exports Becomes a Bureaucratic Nightmare," National Journal, July 29, 1978, p. 1201.

5. 1978 figures obtained from the Department of Commerce.

emphasis placed on export promotion by the various governments. While not advocating that the U.S. government adopt the exact policies of various foreign governments, the chart below reveals what gains the U.S. might expect in quantities of exports if government support of some type was increased.[6]

	EXPORTS FOR 1977 U.S. $ BILLIONS	PERCENTAGE OF EXPORTS SUPPORTED BY THE GOVERNMENT
Japan	81	42
Britain	57	34
France	65	30
Germany	119	12
U.S.	150	7
Canada	43	6

Acknowledging what the above figures illustrate, President Carter in his 1977 International Economic Report stated that in 1975 America's major trading partners spent an average of 50 percent more than the U.S. for the promotion of manufactured exports.

Examination of the following selected statistical data reveals the importance of exports to the domestic economy. One out of every three acres of cultivated farmland in America is used for exports. In 1977, the U.S. exported 45 percent of its wheat production, 60 percent of its soybeans, and 57 percent of its milled rice. Estimates for FY 1978 show farm exports increasing by ten percent above the 1977 levels with the greatest rise in exports to the USSR, Taiwan, and the developing countries of Southeast and East Asia.[7] According to C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, one out of three dollars of U.S. corporate profit is gained through the overseas activities of American firms from exports or direct business investment abroad. One out of every ten jobs in America is related to export commodities, and in manufacturing the percentage is greater, one out of six. The Bureau of Labor Statistics estimates that for every one billion dollars of real U.S. exports, 30,000 new jobs are created.

The Commerce Department reported that U.S. export growth has averaged 7 percent annually since 1974, while imports have simultaneously averaged an annual growth rate of 13.5 percent. A more

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6. Export-Import Bank statistics cited in Business Week, September 25, 1978, p. 62.

7. U.S. Department of Agriculture, World Economic Conditions in Relation to Agricultural Trade, December 1978, p. 8.

pessimistic picture appears in a recent report by the National Association of Manufacturers. This report revealed no real export growth in 1977, a year with relatively high domestic growth, and in which imports grew by 12 percent.[8] Further, the U.S. share of free world exports declined from 18.2 percent in 1960 to 11.8 percent in 1977. With approximately 200 firms accounting for seventy-five to eighty percent of total U.S. exports, a comprehensive export promotion policy is needed to capitalize upon the full potential of private industry.

TABLE 1 -- U.S. EXPORTS OF MAJOR COMMODITIES, 1974-77

(Billions of Dollars, f.a.s. transaction value)

Commodity	1974	1975	1976	1977
Exports, total[1]	$97.9	$107.1	$114.8	$120.1
Nonagricultural products	76.2	85.5	91.7	95.9
Total of which manufactured goods	63.5	71.0	77.2	80.5
Transport equipment, total	12.7	15.0	16.2	16.2
Chemicals, total	8.8	8.7	10.0	10.8
Other nonagricultural products, total	30.4	32.7	33.5	35.6
Agricultural products, total	22.3	22.1	23.3	24.2

1. Totals exclude -- commodities include -- grant-aid shipments.

Department of Commerce figures taken from Hearings on Export Policy-Part 2.

U.S. EXPORT POLICY

The U.S. post-war efforts as participants on an international level to establish a commercial policy advocating trade liberalization began with the signing in 1947 of the General Agreement on Tarriffs and Trade (GATT). An international commercial policy set

8. U.S. Congress, House, Committee on Banking, Finance, and Urban Affairs, Subcommittee on International Trade, Investment, and Monetary Policy, Trade Policy and Protectionism, 95th Congress, 2nd session, July 25, 26, August 1, 1978, p. 29.

forth under GATT guidelines includes a system of custom valuations, an unconditional most-favored nation clause, quantitative restrictions on the use of tariffs, and principles for settlement of trade disputes, arranged through integrated bilateral agreements.

Prior to the Multilateral Trade Negotiations currently taking place in Geneva, six rounds of trade negotiations were concluded under the auspices of GATT. Substantial gains were made in the 1967 Kennedy Round of agreements toward reducing tariff levels resulting in current average tariffs of 9 percent in the U.S., 14 percent in Canada, 11 percent in Japan, and 9 percent in the European Community.[9] Tariffs, however, are only the most visible type of restrictive measure affecting exports. Increasing use by the member partners of GATT of nontariff barriers to trade (NTB's) such as subsidies, contervailing duties, custom regulations, and preferential government purchasing, has generated a feeling that protection is becoming a prevailing attitude in international trade policy considerations.

TRADE ACT OF 1974

The Trade Act of 1974 (PL 93-916) authorized the President to enter into negotiations aimed at further reducing tariff and NTB restrictions over a five-year period and also increased his authority to eliminate and reduce various tariff restraints. Under this authority the U.S. is currently engaged in the most comprehensive talks to date, attempting to achieve liberalization of trade policies.

This Act, nevertheless, complicates efforts toward trade liberalization by legalizing the use of significant controls in the following situations. The President is granted authority to impose corrective measures, such as import subsidies and quotas, for a 150 day period in a time of extreme U.S. balance of payments deficit. Furthermore, he may resort to retaliatory actions against unreasonable use of restrictive measures by foreign governments targeted at U.S. goods.

The most controversial section of the Trade Act deals with the extension of presidential authority to offer any country most-favored-nation trade status. This broad option is limited by the Jackson-Vanik amendment to countries with non-market economies who do not engage in restrictive emigration policies.

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9. Raymond Ahearn and George Holliday, "Trade Negotiations: The Tokyo Round," Congressional Research Service, Library of Congress, November 14, 1978, p. 3.

Additionally, the criteria establishing eligibility for industries to claim compensation from foreign import competition injury were relaxed, which could increase the protection afforded domestic industries. U.S. loans, credits, and insurance guarantees to Communist nations were limited, without new congressional approval, to $300 million.

EXPORT ADMINISTRATION ACT

The Export Administration Amendments of 1977 (PL 95-52) replaced the Amendments of 1969, which had been designed to further East-West trade. This law states that in administering export controls the President should not base decisions solely on the Communist-non-Communist status of a country, but must consider the country's history of friendship toward the U.S., its trade relations, and its importance to U.S. national security. Export controls for national security reasons are banned from presidential use on U.S. products which are available elsewhere in comparable quantities and qualities, unless he can assure the absence of such controls would be hazardous to U.S. security.

Title II of these Amendments deals with the controversial foreign boycott regulations. While the provisions are complex and unclear, it may be generally stated that American firms may not comply with, or in any way support a boycott fostered or imposed by a foreign country against a nation which is friendly to the U.S. Much discussion has surrounded this provision, as related to U.S. trade in the Middle East, in view of the Arab boycott of Israel. It is difficult to measure the cost of restricting U.S. export growth in the Middle East where a market newly glutted with petro-dollars is anxiously looking for ways to absorb the growing wealth.

These amendments illustrate the difficulty in implementing export controls based exclusively on economic or on national security considerations. Careful and balanced judgement regarding both of these considerations is vital in order to yield positive trade effects on both a short-term and long-term basis.

THE EXPORT-IMPORT BANK

The Export-Import Bank of the United States, originally established in 1934 by an executive order was designated an independent government agency in 1945. The Bank assists the expansion of U.S. exports by financing the purchases of U.S. goods by foreign governments. The Bank has not been immune from restrictions imposed for political considerations. Since 1974 the Bank has been prohibited

from financing any trade with non-market economic countries which practice restrictive emigration policies. PL 95-143 requires that a nation's human rights policy be considered before any transaction with that nation is approved by the Bank. Most recently the Bank's approval of financing trade with any communist country has been made subject to a presidential determination that such a transaction is in the national interest. The Bank is currently open for trade with Poland, Yugoslavia, Hungary and Romania. Additionally, the Bank is prohibited from making contracts or expenditures for exports of nuclear equipment, fuel, or technology to any country not deemed eligible for such receipt under the provisions of the Treaty on the Non-Proliferation of Nuclear Weapons. While the imposition of such political considerations upon the Export-Import Bank's financing procedures could be construed as consistent with the Administration's foreign policy objectives, they nevertheless serve to complicate the operation of an institution established for economic purposes to promote the expansion of U.S. exports.

U.S. TAX STRUCTURE

The United States tax structure regarding both corporate and personal taxes of those involved with exportation has evoked criticism. DISC, Domestic International Sale Corporations, originated in 1971 and their operational regulations have been subsequently amended in 1974 and 1976. The DISC program, which is the only export tax incentive, has undergone reductions in its deferment plan and is now the target of a three-year phase-out plan by the Administration. DISC provides that corporations with 95 percent of their assets related to exports and a minimum of 19 percent of their gross income derived from export sales or lease transactions may defer a proportion of yearly corporate earnings from taxation for a specified number of years. The Administration does not wish a repeat of the FY 1977 $1 billion revenue loss from DISC, and is therefore advocating its termination. DISC, as the only tax incentive in force, acts to counter the VAT, the value added tax program used in the European Community, and is thus viewed as a useful program by many exporters in the business community.

PL 95-615 amended the provisions set forth in the Tax Reform Act of 1976 regarding taxation of U.S. citizens legally residing abroad. For these citizens there is no longer a flat exclusion from taxation, instead exclusions are granted for excess cost of living items including housing, education, and transportation to the U.S. for home visits. These deductions are based on excess cost of living expenditures over the cost of one person with a GS-14 income level of approximately $34,442 taking into consideration the cost of living in the most expensive U.S. city.

The decline in the value of the dollar abroad combined with fewer tax exemptions for U.S. overseas workers have decreased the attractiveness of employing U.S. technical and managerial personnel in U.S. foreign subsidiaries as well as foreign companies. The U.S. tax structure regarding American workers overseas unduly burdens the competitiveness of American businesses abroad. None of the major industrial nations with which we compete requires any tax on foreign-earned income after the first six-months. With the current tax structure, the U.S. may be pricing American workers out of foreign markets, as it is becoming cheaper to hire nationals within a foreign country even if they are less efficient workers.

THE FOREIGN CORRUPT PRACTICES ACT OF 1977

The Foreign Corrupt Practices Act of 1977 was an attempt to halt the use of bribery to further American business ventures abroad. However, ambiguities in the law have resulted in an attitude of uncertainty on the part of many American firms, thus acting as a disincentive for export expansion. The Act forbids the granting of payments or gifts by American corporate officials to foreign officials or political party members with the implied motivation being to obtain or retain business. Stiff penalties for violation of the Act include a $1 million fine on a corporation or $10,000 on an individual. The Act fails to define clearly the scope of actions done "corruptly" and whether or not American firms are liable for the actions of their foreign subsidiaries and local agents used as intermediaries in negotiating business deals. This lack of clarity causes some American businesses to be reluctant to consider opening new foreign ventures.

HIGH TECHNOLOGY EXPORTS

High technology exports, including computers, engines, electronics, aircraft, drugs, and petrochemicals is an area of growing importance for the expansion of U.S. trade, and will become increasingly significant if the U.S. wishes to expand trade with the Soviet Union and China. These goods, if viewed in isolation for the past few years, have provided a surplus on the overall trade balance, with the exception of the U.S. bilateral balance with Japan. The aerospace industry over the past eight years has provided $52 billion in exports.[10] The majority of these technical-intensive commodities require an individual validated license from the Department of Commerce. Not only has the licensing process become an exercise in bureaucratic time delays, often causing the loss of a contract for failure to meet deadlines, but these products have recently become the center of controversy between the various government agencies charged with approval of their sale.

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10. Robert Hotz, "Carter's Export Muddle," Aviation Week and Space Technology, August 7, 1978, p. 9.

In 1978 the Departments of Commerce and State were at odds over the sale of trucks by the Oshkosh Truck Company of Wisconsin to Libya. The Commerce Department had approved the sale which consisted of approximately 400 trucks at a price of $70 million with the possibility of providing an additional 100 trucks over a three-year period. The State Department refused to approve the sale on the grounds that Libya, a supporter of international terrorist groups such as the Palestine Liberation Organization, might use the heavy trucks to transport Soviet tanks. In such cases disputes are ultimately settled in the White House. Upon receipt of an "assurance" by the Libyan government that the trucks would not be used for military purposes President Carter, at the end of November, announced that the sale would go through. It is worth mentioning here that in March 1973 the United States, under the auspices of the Chase Manhattan Bank, extended a $86.5 million loan to the Soviet Union to help finance the construction of the Kama River Truck complex, one of the world's largest. It is curious that no objections were then raised by the U.S. government, for the support given to this truck industry occurred during the Vietnam War when transportation equipment was undoubtedly supplied from the Soviets to the North Vietnamese. Furthermore, in the Libyan incident, such indecision on the part of the agencies involved creates immeasurable uncertainty in the minds of businessmen as to whether or not their deals will indeed be approved. Time factors are critical in negotiating contracts in a competitive market and delays due to indecision can result in inadvertent contract losses.

Another incident exposing waffling within the Administration involved an export deal with the Soviet Union with respect to oil technology. During the dissident trials of Anatoly Shcharansky and Alexander Ginzburg in the summer of 1978, President Carter, attempting to use economic restraints to relay American discontent, placed all exports of oil technology to the USSR under U.S. government control. A deal was then underway between Dresser Industries of Dallas and the USSR involving metal bits for drilling at the cost of $144 million. The sale was originally held up at the State Department on human rights considerations. After the State Department and Commerce Department finally agreed to approve the transaction, Senator Henry Jackson (D-Wash.) and the Energy Department raised objections. The dispute again was settled in the White House with a September 6, 1978 announcement by the President that the deal had been approved. Later in the fall Secretary of the Treasury Blumenthal and Secretary of Commerce Kreps approved twenty-two licenses for energy projects.

Human rights considerations in another case may have excluded the U.S. from a $270 million deal. Early in 1978, the Export-Import

Bank was asked by the Allis-Chalmers Corporation to finance their purchase of $270 million worth of power turbines and generating equipment for use in a newly-planned hydroelectric plant to be built on the border of Argentina and Paraguay. According to congressional action the Bank, being forced to consider human rights violations in each transaction, consulted with the State Department, which objected on the grounds of Argentina's human rights violations. Although no final decision has been made, the Allis-Chalmers Corporation has stated they might be forced to turn elsewhere for the needed supplies. Not only might the U.S. lose this deal, but the time delays and uncertainty regarding the application of human rights considerations will likely discourage American business in this region.

A SPECIFIC APPLICATION OF ECONOMIC SANCTIONS

Economic sanctions, when judiciously applied, can be used successfully to further American foreign policy objectives abroad. One such application, however, raising questions concerning the tangible benefits accrued from the policy and implications for the future U.S. trade balance, involves the territory of Namibia.

In 1966, the United States supported a United Nations Resolution which revoked South Africa's mandate to rule the territory of Namibia. This resolution was upheld in 1971 by the International Court of Justice. In an attempt to expedite establishment of a stringent timetable for Namibian self-dependence by South Africa, the U.S. government announced in May 1970 that future U.S. private investments in the territory would be officially discouraged. Further, the Overseas Private Investment Corporation would no longer guarantee U.S. investements in Namibia against future expropriation. The Export-Import Bank was also prohibited from financing credits for trade in South West Africa. American adherence to the UN Security Council Resolution 310 of February 1972, which required "all states whose nationals and corporations are operating in Namibia to use all available means to ensure that such nationals and corporations conform in their policies of hiring Namibian workers to the basic provisions of Universal Declaration of Human Rights" added another policy for American businesses in Namibia to factor into their operations.

The chart below was provided in 1976 by the Commerce Department as an estimate of the existing mineral wealth in Namibia. It is the acquisition and development of these minerals that American investors are being discouraged from seeking.

Copper reserves are estimated at two million metric tons with annual output totaling about 32,000 metric tons.

Lead reserves are estimated to be relatively small. Annual production is around 60,000 metric tons.

Diamond reserves total about five percent of the total world reserves of diamonds. Annual production is approximately 1.5 million carats of gem diamonds and 80,000 carats of industrial diamonds.

Silver reserves are 15 million troy ounces, and production is estimated at 1.5 million troy ounces annually.

Zinc reserves are about 300,000 metric tons with annual output reaching 40,000 metric tons.

There are no statistics on the production of uranium, but it is estimated that Namibia has about five percent of the total world reserves of that mineral.*

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* Resources in Namibia: Implications for U.S. Policy, hearings before the Subcommittee on International Resources, Food, and Energy of the Committee on International Relations, House of Representatives, June 10, 1976.

It has been reported that between 1974 and 1976 five U.S. oil corporations which possessed exploration rights withdrew their operations from the Namibian coast. The political uncertainties were mentioned as a factor prompting these actions. More significantly, it has been estimated that Namibia will be exporting approximately $24 billion in uranium by the late 1980's. With U.S. corporations not actively participating in the development of this uranium, the British have entered the market and have invested large amounts in the Rossing Uranium Mine, expected to become the world's largest. The British company has rapidly been reimbursed for sales of technical equipment as part of a $175 million investment. The question to be raised in this context is whether or not the U.S. might be inflicting unnecessary economic sanctions against its own businesses who specialize in mineral extraction equipment.

While a quantitative assessment of potential American benefits derived from the ultimate political settlement in Namibia, as well as potential economic losses from America's self-exclusion from the mineral market is not available, once again the policies of the U.S.

toward Namibia exhibit the types of considerations which must often be addressed in formulating a politically and economically sound policy, an admittedly arduous task.

ENVIRONMENTAL CONSIDERATIONS

The growing concern over the necessity of implementing stricter environmental standards within the U.S. has widened in scope to include the environmental effects of U.S. exports abroad. Many of the U.S. regulatory agencies, such as the Food and Drug Administration and the Consumer Product Safety Commission, have authority to ban exports of hazardous materials. The possibility of requiring the Export-Import Bank to file Environmental Impact Statements on each proposed transaction has been discussed.

On January 4, 1979, President Carter issued Executive Order 12114, entitled "Environmental Effects Abroad of Major Federal Actions." Within eight months of this order every Federal Agency taking actions "having significant effects on the environment outside the geographical borders of the United States" must be able to implement the requirements set forth in the Order. Exempted from this Order are actions taken by the President, arms transfers and intelligence activities, the export licensing process, and emergency disaster relief. Agencies financing exports, such as the Export-Import Bank, will be required to comply with the procedures. While this Order is not expected to severely curtail the Bank's financing of most commodity exports, project financing may be involved. For example, will the financing of an industrial plant in one country which might pollute a river flowing into a third country be prohibited?

Although there has not been sufficient time for an assessment of the implications of this Executive Order, it can be assumed that additional time delays resulting from paperwork will occur and costly environmental impact statements, if required, could weaken the price competitiveness of some exporters. It will first be necessary to define what "significant effects" with respect to the environment include. While the U.S. may be attempting to raise the conciousness of foreigners to the environmental consequences of their actions, the U.S. must also draw a line somewhere between social responsibility and excessive bureaucratic interference.

Three additional statutes relevant to exportation must be included in this review. First, the United States antitrust laws make the U.S. the only nation which prohibits firms from jointly bidding on overseas operations, thus extending national antitrust laws on an extra-territorial basis. Even while the Webb-Pomerene Act, in existence since 1918, exempts the formation of Export Trade

Associations from the Sherman Antitrust Act provided that such associations do not weaken competition within the U.S., the outdated wording of the Act discourages formation of such associations.

Secondly, most nations have some type of "buy-domestic" preference policy, whether invisible or visible. The Buy American Act of 1933 illustrates such a preference. The Department of Defense now gives 50 percent preference to domestic products. Legislative efforts to extend preference purchasing through restrictions attached to federal grants awarded states and government agencies recently failed, but are expected to resurface. Such a restriction automatically limits U.S. participation in the world trading market for commodity items.

Thirdly, it is important to recognize that in the second session of the 95th Congress, HR 11711, which would have provided an extension of the waiving of countervailing duties by the President in conjunction with the Treasury Department, failed to pass. This specific action has caused the European Economic Community to refuse to complete the Multilateral Trade Negotiations. Unless action on this measure is taken by Congress, the U.S. will be required to impose countervailing duties on many export products from the EEC. Of special concern to the Community are their agricultural products which involve approximately $360 million in exports to the U.S. Should these countervailing duties be imposed the consequence may be more than stalled agreements, perhaps trade wars.

Finally, attention should be given to President Carter's September 26, 1978 announcement of a new policy to promote U.S. export growth. In this statement the President committed himself to:

1. Seeking congressional approval to raise to $4.1 billion (a $500 million increase) the lending authority to the Export-Import Bank in FY 1980.

2. Ordering all heads of governmental agencies and departments, as well as independent regulatory agencies, "to take into account and weigh as a factor, the possible adverse effects on our trade balance of their major administrative and regulatory actions that have significant export consequences."

3. Directing the Small Business Administration to allocate $100 million of current authorizations for loans to small exporters and requiring the Office of Management and Budget to allocate $20 million in annual resources for export development programs conducted by the Departments of State and Commerce.

4. Strengthening agricultural exports by adding $1 billion in FY 1978 for short term export credits.

5. Revitalizing efforts directed toward the Multilateral Trade Negotiations in linking agricultural products with industrial goods.

6. Working to resolve the tax problems of Americans working abroad.

The President's policy statement included a reference to DISC as a "costly and inefficient incentive for exports" which should be immediately revised, followed by its ultimate expiration. Speaking about the U.S. antitrust laws the President stated that in some instances joint ventures by industries would be advantageous to exportation and that he would instruct the Justice Department to clarify the acceptable uses of this practice.

U.S. AND CIVILIAN AND GOVERNMENT ARMS EXPORTS

Expanding the scope of the U.S. trade balance, examined briefly, to include the sale of defense articles and services abroad and taking a glimpse at foreign aid, one finds an area which has significant impact on the U.S. current account balance.

The Arms Export Control Act of 1976 (PL 95-329) guides the authorization of weapon sales by the U.S. government and civilian contractors. Chapter 3 of this Act, entitled Military Export Controls, specifically restricts the use of Export-Import Bank funds for financing of lesser developed countries' military purchases and sets ceilings on sales of arms to African nations and underdeveloped countries. More generally, this provision authorizes the President to control the import and export of articles he designates as "defensive" in nature, which are subsequently placed on a U.S. Munitions List. All items appearing on this list require an individual export license and are subject to a contract limit of under $25 million for defense articles and services of $7 million for any major defense equipment; exempt from these monetary restrictions are member countries of NATO, Japan, New Zealand, and Australia. Every U.S. citizen involved with either the manufacture, import, or export of defense items is required to register with the appropriate government agency and submit a request for an export license for each transaction within the jurisdiction of the above guidelines.

On May 19, 1977, President Carter reiterated his desire to curb the worldwide sale of armaments. With respect to exports he stated that the U.S. would not develop any weapons for the sole purpose of export nor would the U.S. be the first nation to introduce new

advanced equipment into a regional area. Consistent with this objective the Administration set a ceiling for FY 1978 of $8.515 billion on the sale of weapons and services abroad, the aforementioned exemptions still valid. The figures released for actual FY 1978 sales to all nations totaled $13.6 billion as compared to $11.4 billion for FY 1977. The announced ceiling for FY 1979 is $8.434 billion for sales to all nations excluding America's closest allies. President Carter has stated that the ceiling for 1980 will be determined by "the degree of cooperation we receive in the coming year from other nations, particularly in the area of specific achievements and evidence of concrete progress of area transfers restraint."

The Carter Administration has created another overseer of civilian aircraft sales in the Office of Civil Rights in the State Department. This office has been given veto power over civilian aircraft sales if the recipient nation involved does not meet the civil rights standards of the President. To further complicate the processing of arms export licenses, an interagency Arms Export Control Board has been established under Lucy Benson, the Under Secretary of State for Security Assistance. This Board has divided its authority among ten agencies with five working groups added for additional research functions.

An example of the frustrating nature of the recently-imposed controls is seen in the sale of C-130's by Lockheed's Georgia Company. After selling over 1500 of these planes to over 45 countries, the C-130 has been classified under the Arms Export Control Act of 1976 as "significant combat equipment," thus placing it on the U.S. Munitions List. More importantly, the sale of this equipment is now subject to the monetary limits on contracts to each nation, limiting the sale to probably one or two C-130's to a nation per year, as the cost of each plane runs around $8 million with the maintenance costs in addition.[12]

An even more poignant inconsistency lies in the Administration's halt of Swedish Saab Viggen fighters to India because they contain some U.S. licensed components. According to the Secretary of State, this sale was prohibited so as not to introduce new weapons into the unstable India-Pakistan region. However, the engine involved is currently in widespread commercial use. Curiously, this sale was stopped after the Administration pushed strongly for the sale of F-15 and F-16 fighters to the Arab and Israeli governments, certainly a less stable area.

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12. Katherine Johnson, "U.S. Policies Hamper Exports of C-130," Aviation Week and Space Technology, November 13, 1978, p. 57.

The recent decision announced by Iran to cancel an estimated $7 billion of a $11.56 billion weapons order previously placed with the U.S. has serious implications for any immediate hopes of alleviating the U.S. trade imbalance. The Pentagon, in attempting to downplay the economic losses involved, has announced that construction on weapons to date has been financed by monthly Iranian payments. Nevertheless, the United States has lost a major weapons buyer due to the failure of the Carter Administration to formulate a succint and appropriate U.S. policy vis a vis Iran. Once again, the economic ramifications of political foreign policy indecisiveness must be dealt with.

Export controls on arms sales and the possible unilateral restriction of such sales by the U.S. poses a difficult question regarding the feasibility of such actions. Is it in the national interest of the U.S. to refuse to supply arms to countries when they are readily available from other sources? Furthermore, can the U.S. "afford" to prohibit these sales at a time when efforts are being made to strengthen the economic position of the U.S. through improvement of the dollar's position on the international capital market? The French, British, and the Soviet Union are not likely to agree to halt sales of weapons, especially as the Soviet Union needs the hard currency and the European nations need the sales to maintain a defense production base which is economically viable. The U.S. policy of arms sales reductions in Latin American countries which resulted in $2 billion in sales by the British and French, and Peru turning to the USSR for equipment should be an adequate example of the consequences following a U.S. withdrawal from the arms market.[13]

CONCLUSIONS AND IMPLICATIONS

The legislative and policy actions surveyed above do not provide a complete inventory of existing U.S. export control policies. For example, the U.S. currently embargoes trade with Cuba, Vietnam, Cambodia, North Korea, Rhodesia, and Uganda. However, from the summary analysis presented several conclusions can be stated.

The first and most obvious point which must be accepted is that the U.S. merchandise trade balance is continuing to deteriorate with no evidence that conditions will change for the better under current U.S. regulations and policies. The recent policy statement by the President offers hope for improvement, but even if implemented his actions merely represent stopgap measures with limited temporary benefits. Moreover, some elements of his policy statement are so generally stated that it is difficult to determine what their real impact might be.

Secondly, it is clear that there are too many separate pieces of legislation and too many governmental agencies, commissions, and the like with diverse regulatory powers affecting U.S. exports.

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13. For a detailed examination of U.S. arms sales in a specific region, see Heritage Backgrounder No. 36, "Limiting Arms Sales and the Iranian AWACS Proposal," September 20, 1977.

The splintered monitoring of export controls is demonstrated by the Secretary of Agriculture having responsibility for exports of agricultural commodities, the Department of State watching the exportation of strategic and war material, the Nuclear Regulatory Commission surveying nuclear energy material exports, and the Federal Power Commission regulating natural gas and electrical energy exports. This highly fragmented situation results in an uncoordinated array of requirements which collectively creates a major barrier to export trade. A November 1977 survey conducted by the Industry and Trade Commission of the Department of Commerce substantiated this by soliciting opinions from a random sample of nation-wide industries, concerning the impediments they encounter in their export activities. A total of 1596 impediments were mentioned, and of those 40 percent were listed as induced by the U.S. government. Included in this list of government-induced impediments were the following: delays due to bureaucratic procedures, boycott of U.S. goods, lack of U.S. government financing and incentives, the U.S. tax structure, and specific export procedures.[14]

The dispersion of regulatory authority among the many agencies of the government and the impediments resulting therefrom works in opposition to the achievement of what Warren Christopher, Deputy Secretary of State, pronounced as the U.S. policy towards exports. In a November 13, 1978 speech Christopher stated

> For the vast majority of our exports, we have only one basic foreign policy, to encourage and assist them. For exports, there are no other competing foreign policy interests that must be taken into account, and our efforts can be concentrated on assisting U.S. exporters in selling abroad and on working to reduce foreign trade barriers.

When the current status of U.S. exports is reviewed in the context of conditions described above an important philosophical question can be raised. Do the many executive and legislative actions which adversely impinge upon U.S. exports reflect a trend toward an era of "new protectionism" and if so what are the implications for the future trade balance of the U.S.?

A study written by some members of the Secretariat of GATT has defined protectionism as a "policy of increasing the level of protection relying heavily on quantitative restrictions, and often creating additional uncertainty by imposing and administering these obstacles to trade in a non-uniform, discriminatory manner." Furthermore, the study stated that "every policy interference with the economic process which limits its efficiency creates a vested interest, and a precedent inviting other interests to organize and exert their collective power to a similar purpose."[15]

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14. Hearings on Export Policy, Part 6, p. 253. See footnote 2 above.

15. Richard Blackhurst, Nicolas Marian, Jan Tumlir, Trade Liberalization, Protectionism and Interdependence, GATT, Geneva, November 1977.

Melvyn Krauss, in a recent book, The New Protectionism: The Welfare State and International Trade, theorizes that the increase in protectionist policies aimed at providing economic security and increased social consumption, will in time strangle the welfare economy, preventing it from making necessary adjustments to the changing environment. According to Krauss the end results of such a policy will be economic stagnation.[16] In essence, GATT and Krauss are referring to the age old debate between free traders and protectionists, or the conflict between the proponents of public interests and the proponents of vested interests.

Ideally, as the United States adjusts to an emerging economically interdependent world order, its trade policies should increasingly incorporate the philosophy of Adam Smith as pronounced in The Wealth of Nations, which was later espoused by David Ricardo in his theory of comparative advantage. Adherence to the principle of comparative advantage would enable the domestic economy of the United States to reap the full benefits of international trade. Realistically, however, economic policies must from time to time be formulated to further U.S. political foreign policy objectives, therefore precluding a total across-the-board free trade policy. It is critical for the United States to fully understand that foreign trade is more than an integral component of U.S. foreign policy, it is an economic necessity. The nation can no longer rely on its own ability to supply all the desired social consumption items, nor a sufficient quantity of raw materials required to support a functioning economic infrastructure. The challenge, therefore, confronting the executive and legislative decisionmakers is to construct within the framework of sound foreign policy objectives a comprehensive and consistent export policy to guide the international commercial activities of the United States.

Susan P. Woodard
Policy Analyst

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16. Melvyn B. Krauss, The New Protectionism: The Welfare State and International Trade (New York: New York University Press, 1978), pp. 105-114.