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Ireland, Normandy, and the London Economic Summit
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London Economic Summit

April 1984

Background: The seven-nation London economic summit on June 7-9, 1984, will be the 10th economic summit of the Western industrialized countries. Meetings have taken place annually in member countries starting with Rambouillet (France) in 1975; Puerto Rico (US) in 1976; London (UK) in 1977; Bonn (Federal Republic of Germany) in 1978; Tokyo (Japan) in 1979; Venice (Italy) in 1980; Ottawa (Canada) in 1981; Versailles (France) in 1982, and Williamsburg (US) in 1983.

The summits have provided a useful link for consultations on Western economic concerns and security. They also provide a forum for high-level review of the work of the summit country governments in a variety of international institutions, including the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD).

Ottawa: At the Ottawa summit, President Reagan outlined our policy to promote sustainable, market-oriented, noninflationary growth by reducing government spending, changing the tax code to promote savings and investment, and targeting stable and moderate money growth. He also called attention to the potential for erosion of Western security by excessive dependence on Soviet energy resources and to the need to reassess East-West economic relations. The leaders examined the problems of developing countries caused by the explosion of oil prices and financing imbalances during the 1970s. This theme was pursued further at a meeting of 22 developed and developing countries in Cancun, Mexico, later in 1981.

Versailles: At Versailles, the summit created a mechanism to enable countries with special responsibilities for the international monetary and financial system to consult about economic policies affecting the system and also to study past experience in international exchange rate policies. Versailles also highlighted the role emerging technologies will play in the future growth, employment, and trade of our economies. The discussion of East-West economic relations underlined the need for greater consensus among the participants.

Williamsburg: At Williamsburg, members committed themselves to reversing the trend toward protectionism; implementing a joint strategy for managing international debt problems; improving the monetary system; approving the growing consensus among them on East-West economic relations; and progressing toward greater convergence of economic performance among the US, Japan, the Federal Republic of Germany, the UK, and France. They endorsed general conclusions about the role of exchange market operation and intervention and called for consultations on proposals for a new round of trade negotiations.

Progress since Williamsburg: Largely as a result of a growing international consensus on the policies the President first advocated at Ottawa, economic conditions in the summit countries today contrast significantly with those prevailing before Williamsburg. US recovery has surpassed optimistic predictions in 1983. There is greater confidence that the world debt problem can be managed. Strong recession-induced protectionist pressures in the US and other industrialized countries have been checked. US-West European tensions over trade relations with the Soviet Union have diminished.

Although this consensus is real and should help to assure a constructive approach to the variety of international economic problems with which the London summit will deal, some concern remains in other countries about the effects of certain US economic policies and their alleged adverse impact on other countries.

In fact:

- The US recovery is leading other summit countries out of recession and is strengthening the industrialized West as a whole. The less developed countries also are beginning to recover, both through better economic management and the increased demand created by the strong US recovery.
- The US has resisted intense protectionist pressures and is resolved to create momentum for new trade negotiations.
- We are determined to reduce our budget deficit through greater control of government spending and pursuit of policies that will reduce inflationary expectations and bring interest rates down. We will work with other countries to help solve underlying economic and social problems due to a changing world economy.
- Our economic strategy depends on all countries acting to strengthen the interrelationships among economic growth, international trade, and financial policies by promoting more open markets for goods and capital to sustain global growth.

London summit: US objectives for London are to promote policies that will assure that the noninflationary recovery in the Western industrialized countries endures and spreads to the rest of the world. We will stress the need to maintain and expand the open trading and financial system. We will encourage further work in appropriate institutions to promote market-oriented adjustment; continued management of debt problems; early agreement on a new trade round; and a broadened consensus on East-West economic relations.

LOOKING TOWARDS LONDON: TEN YEARS OF ECONOMIC SUMMITRY

A KEYNOTE ADDRESS

GIVEN BY

ALLEN WALLIS

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS

TO

THE 63RD ANNUAL MEETING OF
THE AMERICAN ASSOCIATION
OF EXPORTERS AND IMPORTERS

DURING "WORLD TRADE WEEK"

MAY 23, 1984

Pierre Hotel
New York City

LOOKING TOWARDS LONDON: TEN YEARS OF ECONOMIC SUMMITRY

WHEN I ACCEPTED THE INVITATION TO BE YOUR KEYNOTE SPEAKER, I REALIZED THAT I WOULD APPEAR ON THE EVE OF AN IMPORTANT EVENT, THE TENTH ANNUAL ECONOMIC SUMMIT MEETING OF THE HEADS OF STATE AND GOVERNMENT OF THE SEVEN MAJOR INDUSTRIALIZED COUNTRIES: THE UNITED STATES, CANADA, JAPAN, THE UNITED KINGDOM, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, AND ITALY.

THE FIRST ECONOMIC SUMMIT, WHICH DID NOT INCLUDE CANADA OR ITALY, WAS HELD IN RAMBOUILLET, FRANCE, IN 1975. I DOUBT THAT MANY PEOPLE PREDICTED THEN THAT RAMBOUILLET WOULD LEAD TO YEARLY MEETINGS OF THE LEADERS OF THE SEVEN LARGEST FREE-WORLD ECONOMIES TO DISCUSS MUTUAL ECONOMIC CONCERNS. CERTAINLY ONE OF THE THOUGHTS MOST REMOTE FROM MY MIND THEN WAS THAT I WOULD BECOME INVOLVED IN THE NINTH AND TENTH SUMMITS. ONE OF MY FIRST ASSIGNMENTS WHEN I CAME TO WASHINGTON IN JULY 1982 WAS TO SERVE AS THE PRESIDENT'S PERSONAL REPRESENTATIVE IN PREPARING FOR THE WILLIAMSBURG ECONOMIC SUMMIT. THAT MEETING WAS HIGHLY SUCCESSFUL, THANKS TO THE MAJOR PART THE PRESIDENT PERSONALLY TOOK IN THE PREPARATIONS, AND ABOVE ALL TO HIS SPLENDID PRESIDING AT THE ACTUAL SESSIONS. FOR THE PAST SEVERAL MONTHS, I HAVE BEEN INCREASINGLY ABSORBED IN PREPARING FOR THE LONDON SUMMIT, WHICH WILL BE HELD JUNE 7 TO 9. IN FACT I RETURNED ONLY YESTERDAY FROM CHEVENING, NEAR LONDON, WHERE THE PERSONAL REPRESENTATIVES MET FOR TWO DAYS IN THEIR FINAL PREPARATORY SESSION.

I DID NOT REALIZE UNTIL RECENTLY THAT MY SPEECH TODAY WOULD BE NEAR THE ANNIVERSARY OF ANOTHER HISTORIC EVENT OF PARTICULAR SIGNIFICANCE TO THIS MEETING AND TO NATIONAL TRADE WEEK. FIFTY YEARS AGO, SECRETARY OF STATE CORDELL HULL SHEPHERDED THROUGH THE CONGRESS THE SEMINAL RECIPROCAL TRADE AGREEMENTS ACT. COMING FOUR YEARS AFTER THE SMOOT-HAWLEY TARIFF ACT HAD DEVASTATED WORLD TRADE, AND A YEAR AFTER THE UNITED STATES HAD "TORPEDOED" THE LONDON ECONOMIC CONFERENCE, THE RECIPROCAL TRADE AGREEMENTS ACT WAS THE FIRST MAJOR STEP IN THE EMERGENCE OF THE UNITED STATES INTO GLOBAL ECONOMIC LEADERSHIP. IT MEANT THAT THE UNITED STATES WAS BEGINNING TO SHIFT FROM EXTREME PROTECTIONISM TOWARDS ASSERTIVE, FORWARD-LOOKING EFFORTS TO LIBERALIZE WORLD TRADE. THE ACT SYMBOLIZED HULL'S STRONG BELIEF, WHICH HE HAD VOICED AS A CONGRESSMAN DURING THE FIRST WORLD WAR, THAT "UNHAMPERED TRADE" DOVETAILS WITH PEACE; HIGH TARIFFS, TRADE BARRIERS, AND UNFAIR ECONOMIC COMPETITION WITH WAR."

A HALF CENTURY LATER, THE WORLD ECONOMY HAS CHANGED DRAMATICALLY. IT IS MORE COMPLEX. YET THE ESSENTIAL GOAL OF THE RECIPROCAL TRADE AGREEMENTS ACT -- TRADE LIBERALIZATION -- REMAINS ONE OF THE CENTRAL OBJECTIVES OF THE UNITED STATES AS WE APPROACH THE TENTH ECONOMIC SUMMIT. JUST AS HULL ARGUED THAT BEGGAR-THY-NEIGHBOR TRADE POLICIES BEGAT THE CONFLICT OF

WORLD WAR I, WE TODAY ARE FIRMLY CONVINCED THAT TRADE LIBERALIZATION AND A COORDINATED APPROACH TO RELATED ECONOMIC ISSUES ARE VITAL TO WESTERN SOLIDARITY. IN THE DECADES FOLLOWING HULL'S STEWARDSHIP, WE HAVE LEARNED COLLECTIVELY THAT THERE CAN BE NO SECURE PEACE WITHOUT ECONOMIC HARMONY.

IT WAS THIS KIND OF THINKING THAT LED FORMER FRENCH PRESIDENT GISCARD D'ESTAING TO CALL THE FIRST SUMMIT MEETING AT RAMBOUILLET AND THIS IS WHY IT IS SO VITAL TODAY TO CONTINUE REGULAR CONSULTATIONS AT THE HIGHEST LEVELS OF WESTERN GOVERNMENTS ON ISSUES THAT ARE BASIC TO PEACE AND PROSPERITY -- ISSUES SUCH AS GROWTH, TRADE, FINANCE, MONEY, DEVELOPMENT, AND ECONOMIC SECURITY. LESS THAN TWO WEEKS AGO, AMBASSADOR BROCK, THE UNITED STATES TRADE REPRESENTATIVE, CONVOKED A HIGHLY USEFUL MEETING OF MANY OF HIS MAIN COUNTERPARTS TO LET THEIR HAIR DOWN AND TO VET THE PROBLEMS FACING THE MULTILATERAL TRADE SYSTEM. LAST WEEK, SECRETARY OF THE TREASURY REGAN MET WITH TEN OTHER FINANCE MINISTERS FOR A COMPARABLE PURPOSE RELATING TO INTERNATIONAL FINANCE. BUT THE VALUE OF ECONOMIC SUMMITS IS THAT THEY GO BEYOND DISCUSSION OF ANY SINGLE SUBJECT.

THE SUMMITS AFFORD LEADERS AN OPPORTUNITY TO TAKE ACCOUNT OF THE INTERRELATIONSHIPS AMONG THE VARIOUS ASPECTS OF ECONOMIC POLICY. BILATERAL MEETINGS CAN ACCOMPLISH PART OF THIS FUNCTION. BILATERAL ISSUES, HOWEVER, TEND TO BE RELATIVELY SHARPLY DEFINED. IN AN INTERDEPENDENT WORLD, ECONOMIC ISSUES ARE MORE COMPLEX AND MULTILATERAL. LEADERS, NOT THEIR STAFFS, MUST ULTIMATELY MAKE THE HARD CHOICES ON ECONOMIC POLICY THAT AFFECT NOT ONLY THEIR ELECTORATES BUT ALSO MILLIONS OF PEOPLE OUTSIDE THEIR BORDERS. IT IS VALUABLE FOR THEM TO HEAR DIRECTLY FROM THEIR COUNTERPARTS OTHER, SOMETIMES CONFLICTING IDEAS ON HOW BEST TO APPROACH MUTUAL PROBLEMS.

JUST AS IMPORTANT IS THE FACT THAT ECONOMIC SUMMITS ALLOW THE HEADS OF GOVERNMENT AN UNUSUAL OPPORTUNITY TO GET A BETTER SENSE OF EACH OTHER'S LARGER PRIORITIES, PERCEPTIONS, PREJUDICES, AND POLICIES. WHILE THERE IS AN ABUNDANCE OF OPPORTUNITIES EACH YEAR FOR TRADE AND FINANCE MINISTERS TO MEET, THE ANNUAL SUMMITS PROVIDE THE ONLY REGULAR OCCASION FOR THE MAJOR WESTERN HEADS OF GOVERNMENT TO CONFER ON ECONOMIC ISSUES.

THE MAIN TOPIC OF MY TALK TODAY IS OUR PRINCIPAL GOALS AND OBJECTIVES FOR THE LONDON SUMMIT. BEFORE I OUTLINE THEM, HOWEVER, I WILL SET THE STAGE BY SKETCHING THE EVOLUTION OF SUMMITS SINCE PRESIDENT REAGAN TOOK OFFICE.

OTTAWA IN 1981 WAS PRESIDENT REAGAN'S FIRST SUMMIT AND THEREFORE HIS FIRST OPPORTUNITY TO EXPLAIN HIS DOMESTIC ECONOMIC POLICIES TO HIS SUMMIT COLLEAGUES. ALREADY IN PLACE WAS MUCH OF HIS PROGRAM TO PROMOTE SUSTAINABLE, MARKET-ORIENTED, NON-INFLATIONARY GROWTH. THE KEY COMPONENTS OF THIS PROGRAM WERE, AS THEY ARE TODAY, TO REDUCE GOVERNMENT SPENDING,

TO CHANGE THE TAX CODE IN WAYS THAT PROVIDE INCENTIVES FOR INDIVIDUALS TO WORK, TO SAVE AND TO INVEST, TO REDUCE GOVERNMENT REGULATION, AND TO ACHIEVE STABLE AND MODERATE GROWTH IN THE MONEY SUPPLY. AT THE TIME, THE PRESIDENT'S STRONG EMPHASIS ON STOPPING INFLATION AND ON SHIFTING RESOURCES AND THEIR MANAGEMENT AWAY FROM GOVERNMENT AND INTO PRIVATE CONTROL WAS SEEN BY SOME AS BEING AT BEST ON THE FRINGES OF RESPECTABLE ECONOMIC POLICY. THUS, AT OTTAWA THE PRESIDENT WAS RECEIVED POLITELY BUT SKEPTICALLY.

THE PRESIDENT ALSO USED THE OPPORTUNITY TO HIGHLIGHT HIS CONCERNS ABOUT THE RELATIONSHIP BETWEEN ECONOMIC RELATIONS WITH EASTERN COUNTRIES AND WESTERN SECURITY. FINALLY, AT OTTAWA THE PRESIDENT GAVE A PREVIEW OF THE APPROACH HE WAS TO ARTICULATE MORE FULLY AT CANCUN LATER THAT YEAR ON MANAGING THE RELATIONSHIP BETWEEN DEVELOPED AND LESS DEVELOPED ECONOMIES.

AT VERSAILLES IN 1972, THE HEADS OF GOVERNMENT WERE FACED WITH A SOMBER ECONOMIC TABLEAU -- FALLING OUTPUT, RISING UNEMPLOYMENT, AND HIGH INTEREST RATES. THE SOLE BRIGHT SPOT WAS LOWER INFLATION IN THE UNITED STATES. CONCERN ABOUT EXCHANGE RATES LED TO AGREEMENT TO DEVELOP A FRAMEWORK IN WHICH THE FIVE COUNTRIES WITH SPECIAL RESPONSIBILITIES FOR THE INTERNATIONAL MONETARY AND FINANCIAL SYSTEMS -- NAMELY THE U.S., JAPAN, THE FRG, THE UK, AND FRANCE -- COULD CONSULT MORE EFFECTIVELY ABOUT THE EFFECTS OF THEIR DOMESTIC ECONOMIC POLICIES ON THE INTERNATIONAL ECONOMY. A STUDY OF THE HISTORICAL RECORD OF EXCHANGE RATES WAS ALSO LAUNCHED. FINALLY, VERSAILLES HIGHLIGHTED FURTHER THE PRESSING NEED FOR GREATER CONSENSUS ON EAST-WEST ECONOMIC ISSUES.

BY THE TIME OF WILLIAMSBURG, DEVELOPMENTS IN THE AMERICAN ECONOMY HAD ALREADY BEGUN TO SHOW THE SUCCESS OF THE ECONOMIC POLICIES PRESIDENT REAGAN HAD FIRST CHAMPIONED AT OTTAWA TWO YEARS EARLIER. THE SUMMIT LEADERS EXPRESSED CONFIDENCE THAT ECONOMIC RECOVERY WAS BECOMING A REALITY, WITH THE UNITED STATES IN THE LEAD. THEY DEFINED A STRATEGY BY WHICH, THROUGH A MORE OPEN TRADE AND FINANCIAL SYSTEM, THEY COULD GRAPPLE EFFECTIVELY WITH THE LEGACIES FROM THE 1970'S OF INFLATION, UNEMPLOYMENT, AND DEBT. THEY AGREED ON WAYS TO PROMOTE GREATER CONVERGENCE OF ECONOMIC PERFORMANCE, ACCEPTING THEREBY THE CONCLUSION FROM THE STUDY OF EXCHANGE RATES THAT ECONOMIC CONVERGENCE WAS ESSENTIAL FOR STABILITY OF EXCHANGE MARKETS. AT WILLIAMSBURG, THE CRY FOR MASSIVE GOVERNMENT INTERVENTION INTENDED TO CONTROL EXCHANGE MARKETS WAS MUTED THOUGH NOT QUITE STILLED. ON EAST-WEST ECONOMIC ISSUES, THE LEADERS POINTED TO A NEW CONSENSUS BASED ON WORK CARRIED OUT IN INSTITUTIONS SUCH AS THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, THE NORTH ATLANTIC TREATY ORGANIZATION, AND THE INTERNATIONAL ENERGY AGENCY. FINALLY, STRESSING THE INTERRELATIONSHIPS AMONG GROWTH, TRADE, AND FINANCE, THE LEADERS AGREED ON THE COMPONENTS OF A STRATEGY FOR MANAGING INTERNATIONAL DEBT AND

FOR PROMOTING A MORE OPEN TRADE SYSTEM. THESE COMPONENTS INCLUDED IMMEDIATE ACTIONS AS WELL AS OTHERS THAT WOULD BE CONSIDERED FOR THE MEDIUM TERM, SUCH AS A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS.

WITH THIS BACKGROUND ON THE EVOLUTION OF THE LAST THREE SUMMITS, LET ME TURN TO A DISCUSSION OF OUR GOALS AND OBJECTIVES FOR THE NEXT SUMMIT AT LONDON.

THE UNITED STATES WILL PURSUE TWO PRINCIPAL OBJECTIVES AT THE LONDON SUMMIT:

-- FIRST, TO CONFIRM THAT ECONOMIC RECOVERY -- NOT JUST IN THE UNITED STATES, BUT IN OTHER SUMMIT COUNTRIES -- HAS TAKEN HOLD FIRMLY AND THAT WE NEED TO RECOMMIT OURSELVES COLLECTIVELY TO POLICIES THAT WILL ENSURE THAT GROWTH WILL BE SUSTAINED, WILL NOT BECOME INFLATIONARY, AND WILL SPREAD TO THE REST OF THE WORLD;

-- SECOND, TO BUILD ON THE STRATEGY OUTLINED AT WILLIAMSBURG FOR MANAGING INTERNATIONAL TRADE AND FINANCIAL PROBLEMS AND TO TRANSLATE THAT STRATEGY INTO A CONCRETE PROGRAM OF ACTION.

IN A SENSE, LONDON WILL BE A TRANSITION SUMMIT, MARKING THE PASSAGE FROM A PERIOD IN WHICH THE TASK WAS TO LAY SOLID DOMESTIC FOUNDATIONS FOR GROWTH TO ONE IN WHICH OUR NATIONS TOGETHER, BUILDING ON AGREEMENTS AT WILLIAMSBURG, CAN FURTHER SHAPE THEIR VISION OF THE FUTURE OF THE INTERNATIONAL ECONOMIC SYSTEM. SINCE THE BEGINNING OF HIS ADMINISTRATION, THE PRESIDENT HAS ARGUED THAT THE FOUNDATION OF A WELL-FUNCTIONING INTERNATIONAL ECONOMY MUST BE POLICIES IN EACH OF THE MAJOR COUNTRIES TO REDUCE INFLATION AND TO EXPAND THE SCOPE FOR INDIVIDUAL INITIATIVE. THE THRUST OF HIS MESSAGE HAS BEEN THAT THE PROPER ROLE OF GOVERNMENT MUST BE TO REMOVE DOMESTIC ECONOMIC RIGIDITIES IN ORDER TO FACILITATE, NOT FRUSTRATE, ADJUSTMENT TO CHANGING CIRCUMSTANCES, THUS CREATING NEW JOBS AND A DURABLE PROSPERITY.

IN CONTRAST TO THE SITUATION AT OTTAWA, AT VERSAILLES, AND EVEN TO SOME EXTENT AT WILLIAMSBURG, THE PRESIDENT'S MESSAGE, AND INDEED HIS ECONOMIC PROGRAM, ARE NOW MORE WIDELY ACCEPTED AMONG OUR SUMMIT PARTNERS. THE CHANGE IN ATTITUDE OF SOME SUMMIT COUNTRIES IS STRIKING INDEED. OUR PARTNERS NOW RECOGNIZE THAT THE PRESIDENT'S POLICIES HAVE SUCCEEDED AND THAT, THROUGH HIS CONTRIBUTION TO THE PAST THREE SUMMITS, HE HAS FORGED WITH THEM A COHERENT STRATEGY FOR SUSTAINABLE, NON-INFLATIONARY GROWTH THAT IS BRINGING OUR NATIONS OUT OF THE RECESSIONARY TROUGH OF THE EARLY 1980'S. ALTHOUGH FURTHER REDUCTION IN MARKET RIGIDITIES IN MANY COUNTRIES WILL BE SLOW AND PAINFUL, ALL NOW AGREE ON ITS NECESSITY AND ARE WORKING TO ACHIEVE IT. THUS, THE LONDON SUMMIT WILL PROVIDE AN

OPPORTUNITY TO REVIEW AND TO TAKE SATISFACTION FROM OUR ACHIEVEMENTS DURING THE PRESIDENT'S FIRST TERM, STRESSING THE CONSISTENCY AND CONTINUITY OF PURPOSE THAT HAS CHARACTERIZED THE PRESIDENT'S APPROACH TO BOTH DOMESTIC AND INTERNATIONAL ECONOMIC PROBLEMS.

BUT THE LONDON SUMMIT WILL BE MORE THAN A SUMMARY OR RECITATION OF PAST SUCCESSES. BECAUSE SUMMIT LEADERS WILL START THEIR DISCUSSIONS ALREADY BASICALLY AGREED ON THE PROBLEMS THEY FACE AND ON THE OBJECTIVES OF THEIR RESPECTIVE NATIONAL ECONOMIC POLICIES, LONDON OFFERS THE ADDITIONAL AND UNIQUE OPPORTUNITY FOR LEADERS TO LOOK BEYOND CURRENT PROBLEMS AND TO DEVELOP FURTHER A STRATEGY THAT WILL CONSOLIDATE ECONOMIC RECOVERY AND ADVANCE OUR OBJECTIVES OF MORE OPEN WORLD MARKETS.

OUR TWO BROAD OBJECTIVES AT LONDON, THEN, ARE STRENGTHENING AND SPREADING RECOVERY, AND PROGRESS ON INTERNATIONAL TRADE, FINANCE, AND DEBT. LET ME TRANSLATE THESE BROAD OBJECTIVES INTO MORE SPECIFIC GOALS.

WE EXPECT THAT ONE OF THE MAIN SUBJECTS DISCUSSED AT LONDON WILL BE THE ECONOMIC SITUATION AND THE OUTLOOK FOR WORLD RECOVERY. THERE HAS BEEN A BROAD CONVERGENCE OF THE ECONOMIC PERFORMANCES OF SUMMIT COUNTRIES TOWARD FASTER GROWTH AND LOWER INFLATION. SUMMIT COUNTRIES GREW ON THE AVERAGE OF 2.4% IN 1983. THIS CONTRASTS WITH 0.4% IN 1982 AND 4.5% FORECAST FOR 1984. SUMMIT COUNTRY INFLATION WAS 6.8% IN 1982, 4.3% IN 1983, AND IS FORECAST TO BE 4.6% THIS YEAR. CONTINUED NON-INFLATIONARY EXPANSION IN SUMMIT COUNTRIES IS ESSENTIAL TO SPUR SIMILAR GROWTH IN OTHER INDUSTRIALIZED COUNTRIES AS WELL AS IN THE LESS DEVELOPED COUNTRIES.

THUS, ONE OF OUR CHIEF TASKS AT LONDON IS TO EXPLORE WAYS TO SUSTAIN THIS CONVERGENCE OF SUMMIT COUNTRY ECONOMIC PERFORMANCE AND TO ENSURE THAT HIGHER GROWTH AND LOWER INFLATION SPREAD TO THE REST OF THE WORLD. WE BELIEVE THE KEY ELEMENTS OF OUR ACTION PLAN SHOULD BE:

-- FIRST, TO RESTRAIN GOVERNMENT SPENDING, THUS ALLOWING EXPANSION OF THE PRIVATE SECTOR;

-- SECOND, TO PROMOTE STABLE, MODERATE MONETARY GROWTH, THUS INDUCING LOWER INTEREST RATES AND INCREASING CONFIDENCE THAT INFLATION WILL BE CONTAINED;

-- THIRD, TO REMOVE STRUCTURAL RIGIDITIES THAT ARE INHIBITING THE GROWTH OF EMPLOYMENT IN SOME SUMMIT COUNTRIES; AND

-- FOURTH, TO MAINTAIN AND ENHANCE THE OPEN TRADING SYSTEM IN ORDER TO FOSTER ECONOMIC GROWTH, PARTICULARLY IN THE DEVELOPING WORLD.

CONCERNS WILL UNDOUBTEDLY BE VOICED ABOUT U.S. BUDGET DEFICITS AND THE FEAR THAT THEY WILL CAUSE HIGHER INTEREST RATES THAT COULD CHOK OFF RECOVERY AND REIGNITE INFLATION IN BOTH INDUSTRIAL AND DEVELOPING NATIONS. WITH ACTION NOW TAKEN IN BOTH THE HOUSE AND SENATE ON THE PRESIDENT'S PROPOSALS FOR A "DOWNPAYMENT" ON THE DEFICIT, WE BELIEVE WE CAN PROMISE REAL ACTION IN THE NEAR FUTURE TO REDUCE BUDGET DEFICITS. WE WILL POINT AGAIN TO THE MULTILATERAL SURVEILLANCE PROCESS, INITIATED AT VERSAILLES AND STRENGTHENED AT WILLIAMSBURG, AS A FORUM FOR CONTINUING CONSULTATIONS ON CONVERGENCE. WE WILL ALSO POINT OUT THAT THE SIZEABLE TRADE AND CURRENT ACCOUNT DEFICITS OF THE UNITED STATES HAVE MADE MAJOR CONTRIBUTIONS TO GROWTH IN OTHER COUNTRIES AS THEIR EXPORTS TO OUR MARKET HAVE RISEN. HOWEVER, THAT SITUATION WILL NOT LAST FOREVER, SO IT IS URGENT THAT ALL COUNTRIES PURSUE THEIR ADJUSTMENT EFFORTS.

AS REGARDS THE DEVELOPING COUNTRIES WITH SEVERE DEBT PROBLEMS, ALL PARTIES MUST CONTINUE TO FULFILL THEIR RESPONSIBILITIES UNDER THE FIVE-POINT DEBT STRATEGY ENDORSED AT WILLIAMSBURG. THE PROBLEM WILL BE MANAGEABLE IN THE LONG RUN, AS WELL AS THE SHORT, IF EACH OF US DOES HIS JOB.

OUR OBJECTIVE AT LONDON IS TO CONFIRM THAT OUR STRATEGY FOR MANAGING LDC DEBT PROBLEMS ON A FLEXIBLE, CASE-BY-CASE BASIS IS WORKING AND REQUIRES NO FUNDAMENTAL CHANGE. THIS STRATEGY HAS WORKED SUCCESSFULLY TO PROMOTE ADJUSTMENT EFFORTS IN DEBTOR COUNTRIES AND HAS CHECKED SERIOUS DISRUPTION OF THE INTERNATIONAL TRADE, FINANCE, AND MONETARY SYSTEMS.

WE BELIEVE THIS STRATEGY IS APPROPRIATE FOR THE MEDIUM AS WELL AS THE SHORT TERM. THERE HAVE BEEN SEVERAL SUGGESTIONS RECENTLY THAT OUR STRATEGY LACKS A MEDIUM-TO-LONG TERM COMPONENT. IN FACT, IT HAS BOTH. WE BELIEVE THE LONDON SUMMIT WILL OFFER AN OPPORTUNITY TO EXPAND AND CLARIFY THE MEDIUM-TERM ASPECTS OF THE STRATEGY AGREED TO AT WILLIAMSBURG. WE WILL STRESS FOUR MAJOR ELEMENTS:

-- THE NEED FOR CONTINUED ADJUSTMENTS BY DEBTOR COUNTRIES WITH THE SUPPORT OF THE IMF AND LENDING BY COMMERCIAL BANKS;

-- THE NEED TO EXPAND TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES TO PROMOTE GROWTH IN BOTH AND TO ASSURE THAT HEAVY DEBTORS WILL BE ABLE TO EARN FOREIGN EXCHANGE TO SERVICE THEIR DEBTS AND TO JUSTIFY INCREASED COMMERCIAL BANK LENDING IN THE YEARS AHEAD;

-- THE NEED FOR DEVELOPING COUNTRIES TO STIMULATE INCREASED FOREIGN DIRECT INVESTMENT TO REDRESS THE IMBALANCE BETWEEN DEBT AND EQUITY IN THEIR EXTERNAL FINANCES AND TO ATTRACT THE FINANCIAL, TECHNOLOGICAL, AND MANAGEMENT RESOURCES THEY NEED TO EXPLOIT FUTURE EXPORT OPPORTUNITIES; AND

-- THE NEED FOR CLOSER COORDINATION BETWEEN THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK IN ORDER TO MAKE THE ROLE OF THE BANK MORE CONSISTENT WITH THAT OF THE IMF IN PROMOTING ADJUSTMENT IN DEVELOPING COUNTRIES, AND IN STRENGTHENING THE BANK'S CONTRIBUTION TO LONGER-TERM DEVELOPMENT.

WITH RESPECT TO INTERNATIONAL TRADE, THE CHALLENGE FOR SUMMIT LEADERS AT LONDON WILL BE TO CONSOLIDATE THE MOVEMENT TOWARD WORLDWIDE ECONOMIC RECOVERY, TO PROMOTE EARLY PROGRESS IN LIBERALIZING TRADE AND IMPROVING THE TRADE SYSTEM, AND TO MOVE FORWARD TOWARD NEW MULTILATERAL TRADE NEGOTIATIONS TO ACHIEVE MORE COMPREHENSIVE LIBERALIZATION.

AT THE OECD MINISTERIAL MEETING LAST WEEK, MEMBER COUNTRIES AGREED THAT A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS IS "OF THE UTMOST IMPORTANCE TO A STRENGTHENING OF THE LIBERAL TRADE SYSTEM." THEY URGED EXPANDED CONSULTATIONS WITH ALL GATT COUNTRIES AND GAVE A HIGH PRIORITY TO THE GATT WORK PROGRAM ESTABLISHED IN 1982 TO LAY THE GROUNDWORK FOR THE DEVELOPMENT OF A CONSENSUS ON SUCH NEGOTIATIONS. WE HOPE THE SUMMIT WILL GIVE A REAL IMPETUS AT THE HIGHEST POLITICAL LEVEL TO THIS UNDERTAKING. THE LIBERALIZATION THAT SUCH NEGOTIATIONS CAN ACHIEVE IS ESSENTIAL IN ORDER TO CONSOLIDATE THE FUTURE SUCCESS OF THE STRATEGIES FOR DOMESTIC GROWTH ON WHICH OUR COUNTRIES ARE NOW EMBARKED.

FINALLY, OUR OBJECTIVES ON EAST-WEST ECONOMIC RELATIONS AT LONDON ARE SIMPLE AND STRAIGHTFORWARD. WE WILL SEEK TO CONTINUE TO WORK CLOSELY WITH OUR SUMMIT PARTNERS AND OTHER ALLIES TO BROADEN OUR CONSENSUS ON PRUDENT ECONOMIC RELATIONSHIPS WITH THE SOVIET UNION AND THE COUNTRIES OF EASTERN EUROPE. WE WILL URGE THAT WORK UNDERWAY SINCE 1982 IN SUCH SPECIALIZED ORGANIZATIONS AS THE OECD, IEA, COCOM, AND NATO CONTINUE IN ORDER TO MAKE THAT CONSENSUS AS COMPREHENSIVE AS POSSIBLE.

IN SPITE OF THE LENGTH WITH WHICH I HAVE DESCRIBED U.S. GOALS AND OBJECTIVES AT LONDON AND THE ISSUES WE EXPECT TO TACKLE COLLECTIVELY, YOU MOST DEFINITELY SHOULD NOT GET AN IMPRESSION THAT WE EXPECT MAJOR BREAKTHROUGHS AT LONDON THAT WILL MAKE HEADLINES IN THE WALL STREET JOURNAL, THE NEW YORK TIMES OR THE JOURNAL OF COMMERCE. FOR AT LEAST THREE REASONS, I EXPECT THIS NOT TO OCCUR.

FIRST, IF THE PROBLEMS DISCUSSED AT LONDON WERE SUSCEPTIBLE TO EASY ANSWERS AND QUICK FIXES, THERE WOULD BE NO REASON FOR THE SUMMIT. THE ISSUES WITH WHICH THE SUMMIT LEADERS WRESTLE ARE COMPLEX. ONLY LONG TERM APPROACHES PROVIDE REAL SOLUTIONS, AND LONG TERM APPROACHES ARE COMPLICATED AND DIFFICULT. THOSE WHO EXPECT BLINDING REVELATIONS AND FACILE CURES FOR THE WORLD'S ECONOMIC ILLS WILL BE DISAPPOINTED -- NOT ONLY IN JUNE AT LONDON, BUT PERPETUALLY EVERYWHERE.

IN A REPETITION OF THE ATMOSPHERE INTRODUCED BY PRESIDENT REAGAN AT WILLIAMSBURG, WE EXPECT THAT SUMMIT LEADERS AT LONDON WILL DISCUSS THESE LONGER TERM APPROACHES IN AN INFORMAL, FLEXIBLE MANNER, WITHOUT THE RIGIDLY STRUCTURED AGENDA AND PRE-NEGOTIATED COMMUNIQUE OF MOST SUMMITS BEFORE WILLIAMSBURG. EARLIER SUMMITS FOCUSED ON DETAILED MEANS TO COORDINATE MACROECONOMIC POLICIES, REFLECTING A VIEW THAT THE ROUTE TO SUSTAINED GROWTH LAY IN INTERNATIONALLY CONCERTED MANIPULATION OF DEMAND -- SO-CALLED "FINE TUNING." THESE EFFORTS WERE DISAPPOINTING AND MAY HAVE CONTRIBUTED TO THE INSTABILITY THAT ONLY NOW IS BEING BROUGHT UNDER CONTROL. WHILE OUR NEW APPROACH TO SUMMITRY MAY PRODUCE FEWER HEADLINES, IT SEEMS TO ME EMINENTLY MORE PRUDENT AND CONSTRUCTIVE.

THE SECOND REASON THAT HEADLINE HUNTERS WILL BE DISAPPOINTED IS THAT DISAGREEMENTS MAKE THE BEST HEADLINES. AS SUMMIT ECONOMIES EXPAND, SCAPEGOATING DIMINISHES; NEVERTHELESS, I EXPECT THE STORIES FROM LONDON TO FOCUS ON EXPRESSIONS OF CONCERN ABOUT INTEREST RATES, DEFICITS, AND DEBT CRISES. I URGE THAT YOU NOT BE MISLED IF THAT HAPPENS. EXPRESSIONS OF CONCERN, WHICH INDEED WE ALL SHARE, DO NOT NECESSARILY MEAN DISAGREEMENT OR DISARRAY. WHILE THERE WILL NOT BE AGREEMENT ON EVERY ISSUE, I WILL BE SURPRISED IF THERE IS SIGNIFICANT DISAGREEMENT ON AN ISSUE OF MAJOR IMPORTANCE. SO I SUGGEST THAT YOU LOOK BEYOND THE HEADLINES, READ CAREFULLY THE STATEMENTS THAT ARE ISSUED, AND DRAW YOUR OWN CONCLUSIONS.

FINALLY, I ANTICIPATE THAT NO STARTLING NEWS WILL COME OUT OF LONDON BECAUSE THE NEWS DEALS WITH THE PRESENT BUT THE SUMMIT DEALS WITH THE FUTURE. THE REAL TEST OF THE LONDON SUMMIT'S SUCCESS WILL BE REFLECTED NOT IN NEXT MONTH'S HEADLINES, BUT IN THE MONTHS THAT FOLLOW; NOT IN WHAT THE LEADERS SAY AT LONDON, BUT IN WHAT THEY DO IN THE MONTHS AND YEARS AHEAD WHEN THE UNITED STATES AND OUR SUMMIT PARTNERS SEEK TO IMPLEMENT DOMESTICALLY AND INTERNATIONALLY THE POLICIES SKETCHED AT LONDON. WE HAVE COME A LONG WAY, INDIVIDUALLY AND COLLECTIVELY, IN THE 50 YEARS SINCE THE RECIPROCAL TRADE AGREEMENTS ACT, BUT THERE IS STILL A LONG WAY TO GO. LONDON, LIKE ITS PREDECESSOR SUMMITS, WILL MARK ANOTHER, AND I BELIEVE A SIGNIFICANT, MILESTONE ON OUR JOURNEY.

International Economic Issues

February 7, 1984



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is a statement by W. Allen Wallis, Under Secretary for Economic Affairs, before the Joint Economic Committee, February 7, 1984.

This series of hearings on international economic policy provides a service not only to the Congress and the public but also to the Administration by requiring us to focus from time to time on the broad picture. My task today is made easier by the testimony you have already received from Ambassador Brock [U.S. Trade Representative William E. Brock], Secretary [of the Treasury Donald T.] Regan, and others in senior economic positions in the Administration. Rather than review ground that they have covered, I will restrict my comments to the international aspects of the economic scene.

With your indulgence, I will preface my remarks with a few words on the relationship between domestic and international economic policy. My position as Under Secretary of State for Economic Affairs gives me a unique vantage point from which to comment on this issue. One often hears the question, "What is the Administration's international economic policy?" or from less friendly folks, "The Administration has no international economic policy." This comment, while intended to be derogatory, embodies some good economics. What the Administration has is an economic policy, the same abroad as at home.

As I have traveled around the world, I have been struck by the validity of old-fashioned market economics, by the importance of keeping inflation under con-

trol, and by the stifling effects of governments. Good economic policy is good economic policy whether the application is domestic or international.

What is different about "international" economic policy is not the economics but the politics, and the politics are more domestic than international. Trade policy, for example, seems to be a quintessential example of international economic policy. But I see trade policy more as did the 19th-century humorist Ambrose Bierce. Bierce defined tariffs as devices "to protect the domestic producer against the greed of his consumers." Trade policy involves decisions about diverting the income of some groups in a country (for example, consumers of automobiles) for the benefit of other groups in the same country (for example, producers of automobiles). The policy may be carried out at the border by limiting access to the U.S. market, but both its beneficiaries and its victims are primarily domestic and only secondarily foreign.

During the 3 years of this Administration, understanding has spread internationally that economic health is first and foremost the result of the economic policies followed at home. But I can testify from experience in numerous meetings at the Organization for Economic Cooperation and Development (OECD), with officials of scores of countries, and at the economic summits that there is still a long way to go. The idea dies slowly that a new international institution, or a coordinated action program, or massive transfer of resources will solve the problems of growth, employment, development, or debts.

Economic Summits

I can illustrate my point by referring to the economic summit meetings, which bring together the leaders of the seven major industrialized countries of the free world. As the President's personal representative for the summit, I directed preparations for last year's meeting in Williamsburg. I will represent the President again in preparing for this year's summit in London, which will be the 10th such meeting.

The economic summit meetings are evolving in a more productive direction, providing more flexible and informal opportunities for consultation and collaboration and deemphasizing formal, negotiated, specific commitments. Earlier meetings focused on detailed coordination of macroeconomic policies, reflecting a view that the route to sustained growth lay in internationally concerted manipulation of demand—so-called "fine tuning." These efforts were disappointing and may have contributed to the instability which we only now have begun to control. Although I will not take the time to do so now, it is instructive to compare the policy prescriptions in the Bonn declaration of 1978 with the annex to the Williamsburg declaration, entitled "Strengthening Economic Cooperation for Growth and Stability."

At Williamsburg the leaders rejected calls for quick fixes and reconfirmed a medium-term approach to economic policies first laid out in the annex to the Versailles communique. They recognized trade as the mechanism transmitting growth among countries, enlarging markets, increasing efficiency, and spurring more growth. Understanding that pressures for protectionism represented a serious threat to a sustained and vigorous recovery, they pledged themselves "to halt protectionism and as recovery proceeds, to reverse it by dismantling trade barriers." A further danger dealt with at Williamsburg was the heavy burden of debt that hung over more than a score of developing countries. While achieving a lasting, vigorous recovery in the industrialized world was the key to a lasting solution to this problem, the immediate serious financial problems of certain countries—notably Mexico, Brazil, and Argentina—had to be managed if the recovery was to be sustained. Finally, and most important, the major message from Williamsburg was that the steady application of anti-inflationary policies was promoting economic recovery and that there would be continuation of policies favorable to sustained growth.

It is now clear that the confidence projected at Williamsburg 8 months ago was not just wishful thinking. Noninflationary recovery in the United States is now well established. Performance and prospects in other countries vary, of course, in large measure reflecting different degrees of success in reducing inflation. Strong linkages to the U.S. economy have also helped. The recovery in Canada closely mirrors that in the United States. Among other summit countries, growth in 1983 appears to have improved substantially in Japan, Germany, and the United Kingdom. Growth in France was weak or negative in 1983, but adjustment measures taken in France last year should bear fruit in 1984.

Impact of the U.S. Recovery

In many ways, 1983 was a watershed for the international economy. The prophets of gloom and doom were easy to find as the recession hit bottom in late 1982. A quick review of the forecasting record is revealing.

In July 1982, when full-year forecasts for 1983 were beginning to be presented, the consensus was that the United States would experience a very modest recovery—2% full year to full year. At that time, the outlook was generally thought to be weaker in the United States than in Europe or Japan.

As the year 1983 progressed, these consensus forecasts proved to be well removed from reality. By spring, the U.S. recovery was well underway. The Japanese economy was still weak. However, France was entering a recession, Germany was faced with weak domestic demand, and the U.K. recovery seemed to be losing strength. This shift in relative growth prospects and performance added to the attractiveness of dollar assets.

As we now know, even the mid-year forecasts failed to grasp the strength of the U.S. recovery. Output rose over 6% while inflation barely exceeded 3%, though forecasts in July 1982 had been 5.5%.

Despite the strong recovery, U.S. economic policies have been—and continue to be—subject to considerable foreign criticism. This is natural, given our large weight in the world economy, our traditional leadership in international economic policy, and the natural inclination of human beings to look for scapegoats. Opinion abroad has moved from doubts that a genuine recovery was occurring, to concern that it would be short lived or weak, to worry that it might be so rapid as to reignite inflation. Recently foreign criticisms have

focused on assertions that high U.S. budget deficits are causing high real interest rates, which in turn are causing the dollar to be too high, thus—it is alleged—hindering recovery abroad. Secretary Regan has addressed the fallacies of this line of argument in detail, so I will not repeat what he said, except to note that I agree with him.

The U.S. recovery has had far-reaching effects. As the recovery proceeded, the strong growth in U.S. imports has provided the major impetus to world trade. The strong dollar has substantially improved the competitive position of our trading partners, allowing them to take full advantage of the growth in our market and compete effectively in third-country markets. (The French trade deficit, for example, was cut in half last year, primarily because of the increased competitiveness of French goods.) The deterioration in the U.S. trade and current account balances between 1982 and 1983, estimated to be \$30 billion, is a measure of the powerful trade stimulus provided to other countries. The vigor of our recovery has boosted confidence and eased concern about the fragility of the world financial system.

While on the subject of the record trade deficits—the 1984 deficit is projected to exceed substantially the record \$65 billion of 1983—I want to comment on the popular notion that restricting imports will help reduce that deficit. If we lump goods and services together and look at the current account balance rather than the trade balance, we find that we are examining, once again, an international manifestation of a domestic phenomenon. The current account balance is always exactly equal to the difference between domestic savings and domestic investment. An excess of savings (as in Japan) goes with a surplus on current account; a deficit of savings (as in the United States) goes with a deficit on current account. Trade barriers alter the pattern of consumer spending but not, directly, the level of spending. Similarly, commercial policy can affect the pattern of investment but has no necessary impact on its level since trade restrictions favor some domestic industries at the expense of others. Trade policy cannot, therefore, have more than a transitory influence on the size of the current account deficit.

Efforts To Reverse Protectionism

Last week Ambassador Brock ably reemphasized to you our dedication to the aim agreed to in Williamsburg to halt and reverse protectionism. As he explained, we are pursuing this objective

through a number of avenues. On the bilateral side, we are working with the Japanese Government to gain better market access for U.S. products, in particular for products of high technology and of agriculture. We have achieved some success already, notably on trade in semiconductors and access for telecommunications equipment. We expect progress in other areas as well. With the European Economic Community (EC), our efforts to deal with the increased use of export subsidies and market restrictions have, as Ambassador Brock pointed out, been less successful. As the recovery in Europe gains strength, however, we can hope for a reduction in protectionist pressures in Europe.

Work by the trade ministers of the United States, Canada, Japan, and the European Community is leading to specific steps in the short term to reduce trade barriers. These are small steps—acceleration of the tariff cuts agreed to in the Tokyo Round, for example, and granting duty-free entry to exports from the very poorest countries—but they are steps in the right direction, and they are evidence that multilateral agreements to roll back protection can become reality.

In the longer term, we are putting a good deal of emphasis on a new round of trade negotiations as a comprehensive means to dismantle trade barriers and to improve the international trading climate. Since the inception of the General Agreement on Tariffs and Trade (GATT), repeated rounds of multilateral trade negotiations have provided the basis for the expanded liberalization of international trade. They have provided a framework for generating the political will to reduce barriers; they have provided also a liberalizing direction for the management of trade policy during difficult economic periods, making it easier for governments to resist protectionist pressures. It is time to consider the preparation of new multilateral negotiations.

Let me single out one area of trade policy which the Department of State considers of key importance in our foreign economic policy: the defense and promotion of U.S. interests in agriculture. Agricultural exports totaled \$36 billion in 1982 and supported well over a million jobs.

Many countries have trade barriers that shut out agricultural products to protect less efficient domestic producers. In some cases high price supports for domestic producers result in huge surpluses which are then disposed of through the use of export subsidies. We have also been engaged in intensive

discussions with the EC concerning the use of export subsidies and proposed changes in the Common Agricultural Policy which would result in further restricting access to the EC market.

Currently, we are in discussions with the Japanese to expand access to their market for products such as beef and citrus. The expansion of imports would benefit not only U.S. exporters but also Japanese consumers.

We are also participating in discussions in the GATT on ways to improve the effectiveness of international rules governing the conduct of agricultural trade. The major thrust of these efforts has been to restrict the use of export subsidies. We believe that improved international discipline is needed so that U.S. farmers can benefit from their great efficiency and spread those benefits to consumers everywhere. The State Department works closely with the U.S. Trade Representative and the Department of Agriculture in efforts to reduce barriers to agricultural trade.

East-West Trade

I would like to examine with you the exception that proves the rule. I said earlier that good economic policy was not a question of international or domestic application. But there are cases which require us to pursue "bad" economic policy because of overriding foreign policy and security concerns. Trade with the Soviet Union and its allies is such an exception.

In looking at East-West trade and how it relates to our security, there are a number of distinctive features that we must recognize.

First, this is an area of economic activity where some government intervention is necessary. The asymmetry of our two societies, with many self-interested firms and individuals on our side and a security-conscious monolith on the other, dictates a role for government.

Second, we recognize that in many areas of East-West economic relations it is difficult to decide where to draw the line between allowable and impermissible transactions and the decision often hinges on information that is not available to the public.

The third and most important feature of our East-West economic policy is our strong belief that the best approach to East-West economic relations is one that we can implement in conjunction with our allies and partners. After all, if we deny a sale and the Soviets can easily purchase an equivalent item elsewhere, not much is gained—and something may be lost—by

our action. This was illustrated by the 1980 grain embargo in which the Soviets were able, with only a little inconvenience and additional expense, to replace the grain that we denied them.

Because we believe strongly that a collective approach is most effective in enhancing Western security, we have worked very hard during the last 2 years with our allies and partners to enhance our common understanding of the interrelationship between economics and security and to develop a basic framework for the conduct of East-West economic relations.

The results achieved thus far are encouraging. The hopes of President Reagan and Secretary Shultz in undertaking a year ago a series of studies on East-West economic relations have been borne out amply by the positive and constructive spirit in which they were conducted and by the results that have been achieved. In fact, the policy conclusions based on those studies made it unnecessary for the summit leaders to spend much time at Williamsburg on this subject, though at Ottawa in 1981 and at Versailles in 1982 it had generated controversy. The Williamsburg declaration said:

East-West economic relations should be compatible with our security interests. We take note with approval of the work of the multilateral organizations which have in recent months analyzed and drawn conclusions regarding the key aspects of East-West economic relations. We encourage continuing work by these organizations, as appropriate.

Let me review for you some of the major points on which the leaders based this statement.

First, they recognize that the Soviets use some forms of trade to enhance their military capabilities and that, as a result, we must be vigilant to ensure that economic relations are consistent with our common security interests. While some forms of trade that are conducted on commercially sound terms can benefit both sides, we must insist on a balance of advantages and avoid preferential treatment of the Soviets.

Second, in regard to energy, the United States and its partners recognize that natural gas, with its relatively inflexible supply system, poses particular security problems. We have agreed that, in meeting future gas needs, we will take concrete steps to ensure that no one producer is in a position to exercise monopoly power over industrial countries. Further, we are also acting to encourage the production of natural gas from Norwegian and North American

sources, and each nation is improving its safety-net measures in order to be able to deal with any interruptions of supply. The United States and its partners have agreed also to conduct regular reviews of each country's energy policy, giving special attention to dependencies and alternative sources of supply. We believe that these concrete accomplishments will enhance Western energy security and make it more difficult for the Soviets to use their abundant energy resources to extract political gains.

Third, we reached agreement that it is not sensible to continue to give the Soviets the same reductions on interest rates given to newly industrialized countries to finance their imports. Our agreed minimum interest rate for official lending to industrial countries, including the Soviets, is now 12.4%, which is above the current U.S. prime rate. Also in the area of credits, we are working to improve our ability to monitor credit flows, so that our data on foreign indebtedness will be accurate and up to date.

Finally, in coordinating controls over the export of strategic technology, we are united with our allies in declaring that economic relations should not be permitted to contribute to Soviet military capabilities. At an April high-level meeting with our COCOM [Coordinating Committee for Multilateral Security Export Controls] partners, we explored ways in which the multilateral system of controls could be strengthened. The proceedings of the meeting are confidential, but I can say that the

United States is well pleased with the work on improving coordination in export licensing and in the enforcement of controls. We are confident that the results of the COCOM work will reduce the flow of high technology to the East.

Conclusion

In conclusion, I have a few general observations on the role of the State Department in international economic issues. As our world economy has become increasingly interdependent, two things have happened:

First, the relative share of the United States in total world production and trade has shrunk; and

Second, the importance of trade to the U.S. economy has grown.

This latter phenomenon has been translated into greater attention by the "domestic" agencies to international issues. In this arena, the principal concerns of the State Department for our foreign relations—concerns which are hard to measure in dollars and cents—are not always fully understood. And I must confess that my colleagues at State do not always understand my concerns about actions they believe are valuable in the foreign policy arena.

So I find myself the nexus of misunderstanding. In carrying out this role, I attend a never-ending stream of meetings. On the domestic side, I represent the Secretary at the various Cabinet councils and other Cabinet-level groups (such as the Senior Interagency Group on International Economic Policy)

that formulate policy options and recommendations for the President. On the international side, I head the U.S. delegation to a series of bilateral economic consultations with the EC, Japan, New Zealand, Korea, India, Pakistan, and the Association of South East Asian Nations. Then there are the international organizations—most notably the Organization for Economic Cooperation and Development and the economic summits—in which we propound and defend our view of successful economic policy. My colleagues in the Administration could extend this list to the International Monetary Fund, the GATT, the World Bank, and other institutions which are more directly involved in negotiations on the rules and resources of the international economic system.

There is a lot of institutional knowledge, folklore, and mythology about all of this. But the basic principle that I follow, sitting where international and domestic forces merge, is the one I stated at the beginning of my statement: good economic policy is good economic policy, whether applied domestically or internationally. ■

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The World Economy After Williamsburg

June 22, 1983



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Allen Wallis, Under Secretary of State for Economic Affairs, before the American Chamber of Commerce, Wellington, New Zealand, June 22, 1983.

It is a pleasure to be with you this afternoon to look briefly at the world economy after Williamsburg. I must confess that 6 months ago I was not sure that there would be a world after Williamsburg—we in Washington were so wrapped up in its preparation. But I was brought back to the real world one Sunday afternoon in March. I was in Florida with some old friends from Rochester. One of the group asked me what I was doing in Washington; I said I was the “sherpa” for the economic summit. He said: “The summit, what’s that?” I recount this story to put the Williamsburg meeting in its proper perspective—an important meeting but not an event that will shake the world. The world after Williamsburg depends not on what the participants did and said there but what they will do back home: to support the recovery, to reverse protectionism, and to encourage the process of economic development around the world. And it depends as much on the heads of other governments as on the seven presidents and prime ministers who met at Williamsburg the last 3 days in May.

After reading the final declaration, President Reagan added his personal assessment of the results. He said: “Our meeting has shown a spirit of confidence, optimism, and certainty—confidence that recovery is underway, opti-

mism that it will be durable, and certainty that economic policy and security ties among us will be strengthened in the future.”

Sustaining International Recovery

Let me elaborate on these points. “Confidence that recovery is underway” is not simply wishful thinking. It is based on good evidence that virtually all of the leaders brought to Williamsburg. Speaking for the United States, I can assure you that our economy certainly looks good. Industrial production has been rising for 6 months and by May was nearly 7% above its November low. Employment has increased by nearly 800,000 from its December low, and the unemployment rate has fallen from 10.7% in December to 10.0% in May. Personal incomes are rising and retail sales are gaining momentum. Although real GNP rose at only a 2.5% annual rate in the first quarter of this year, we estimate it grew at over 6% during the second quarter, and we forecast that the fourth quarter of 1983 will exceed the fourth quarter of 1982 by at least 5%.

The beginning of the recovery has been accompanied by price stability. The producer price index for all finished goods was no higher in April than it had been the previous September, and the consumer price index in April was less than 1% above its level 6 months earlier. This favorable price performance is, in part, a reflection of the unusual decline in energy prices that has occurred in the past few months. But even when the

volatile prices of energy, food, and shelter are excluded, the consumer price index increased at an annual rate of only 4% between October and April.

Labor productivity is increasing sharply this year, and wages are rising only moderately. Thus, unit labor costs are increasing very little. In the first quarter of 1983, unit labor costs in non-farm business rose at an annual rate of only 1.2%, down dramatically from the 7.2% increase in 1982 and the 11.2% increase in 1981.

When the inflation news is so good month after month, it is easy to forget that consumer prices rose 25% as recently as the 2 years ending in December 1980.

President Reagan's "optimism that the recovery will be durable" is based on the leaders' determination to avoid the pitfalls that have brought us a decade of boom-bust, stop-go economic performance. The Williamsburg declaration clearly emphasizes the need to avoid three dangers if we are to achieve growth that is noninflationary and sustainable.

First, the Williamsburg declaration follows the consensus established at the OECD [Organization for Economic Cooperation and Development] ministerial meeting earlier in May to take a medium-term approach to economic policy, eschewing the route of "quick fixes" and quicker disappointments.

Second, the participants at Williamsburg recognized trade as the mechanism that transmits growth in one country to other countries, thereby enlarging the market, increasing efficiency, and spurring more growth. The statement on trade from Williamsburg is the strongest yet in a series of recent major statements on world trade. At the GATT [General Agreement on Tariffs and Trade] meeting last November, the trade ministers hinted at the need to remove trade barriers. At the OECD, ministers agreed to fight protectionism and dismantle trade barriers. At Williamsburg, the heads of government of the seven largest economies committed themselves "to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers." They went on to state their intention to monitor this commitment "within the appropriate existing fora" such as the GATT and the OECD. A new wave of protection would spell the end to the recovery before it gets underway. Only heads of government can balance all of the interests and judge that protection is the wrong way to go. As I said earlier, the words at Williamsburg will not change the world, but adherence to this

one commitment on trade can. You could be certain that we in the United States will be pursuing this vigorously.

A third danger to sustaining the recovery that was dealt with at Williamsburg is more international in character: the heavy burden of debt that hangs over more than a score of developing countries. Substantial progress has been made in the past year in dealing with the serious financial problems of Mexico, Brazil, and other countries, but the situation is far from settled. Failure to resolve these problems could threaten the trading and financial arrangements of the world and thus undermine the recovery that is clearly underway. The debtor countries must continue to make substantial, indeed painful, adjustments to bring their domestic finances and international trade balances into a more satisfactory state. At the same time, the commercial banks, the IMF [International Monetary Fund], and the individual governments must also strengthen their own collaborative efforts. The Williamsburg declaration is clear on this point, again in terms very similar to the consensus reached at the OECD earlier. A key step—early ratification of the IMF quota increases—is a top legislative priority for us back in Washington. We have recently had good news from the Senate on this score.

Three Fallacies

Many would add the budget deficits in the United States to this list of dangers to the growing recovery. I do not want to dismiss the evil of budget deficits lightly—but before I address their evil side, allow me a few moments to address three fallacies which are tied back to budget deficits. The fallacies arise from a chain of causality that goes something like this: high deficits, caused by the recent tax rate reductions and the defense spending program, force up real interest rates. These higher real interest rates attract capital from abroad which raises the value of the U.S. dollar relative to other currencies. Let's consider three links in this chain:

- The link between exchange rates and interest rates;
- The link between interest rates (especially real interest rates) and budget deficits; and
- The link between deficits and taxes (throwing in defense expenditures for good measure).

Exchange Rates and Interest Rates. To be sure, the dollar has been strong. Equivalently, the franc, the pound, and the mark have been weak.

Also, the United States is running a current account deficit in its balance of payments, largely because the value of imports exceeds the value of exports. That deficit is expected to reach record levels this year.

The strong dollar is a spur to export industries in foreign countries and to their industries that compete with imports from the United States. Correspondingly, it's a handicap to our exporters in a very big way.

Individuals who believe that the dollar is overvalued, in the sense that they believe that its foreign exchange value will fall, can readily put their own money where their judgments are and buy francs, marks, and so forth, or sell the dollar short. Note that the international monetary market of the Chicago Mercantile Exchange and other futures exchanges offer easy and efficient access to those wishing either to speculate in foreign exchange markets or to hedge against exchange rate changes and volatility. The strength of the dollar is largely a consequence of the successful anti-inflation policy of the United States, of the safe haven the United States affords foreign investors, and of the improved prospects in the United States for substantial economic recovery. In my judgment, high interest rates are not the major factor causing the dollar to be so high. When interest rates in the United States fell sharply from July through November of 1982, the dollar continued to strengthen against the British pound, the German mark, the French franc, the Japanese yen, the Italian lira, and other major foreign currencies. If U.S. interest rates are crucial in determining foreign exchange rates, why did the dollar strengthen, not weaken, when U.S. interest rates cascaded down?

Look at a specific example: since December 1980 the French franc has depreciated about 65% against the dollar, from 4.5 francs per dollar, to 7.4. What has happened to interest rates in the United States and France over that period? U.S. short-term rates were 16.3% in December 1980 and are now around 8.7%. Comparable French rates were 11.5% then, 12.6% now. U.S. rates have fallen sharply—French rates have risen. The differential has shifted by nearly 10 percentage points in favor of French assets. If anything, that should have led to a stronger franc and a weaker dollar. It obviously didn't. Even for a more recent period—say since May 1981—the franc has fallen by about 35%; the interest rate differential has moved about 5 points in favor of French assets. Similar lack of correlation between changes in interest rates and

changes in exchange rates can be found in other pairs of currencies, though they are not often as dramatic. We must acknowledge that other factors have been more important than interest rates in determining exchange rates.

Deficits and Interest Rates. Now I want to turn to the link between deficits and interest rates. Now that I have debunked the idea that interest rates dominate exchange rates, you may not be interested in U.S. interest rates—but they are important, both for the U.S. recovery and for the debt servicing problems of developing countries or other countries with external debt.

Nominal interest rates in the United States have fallen drastically. In 1981, the first year of the Reagan Administration, interest rates peaked at 15.5% (AAA corporate bonds) when the Federal deficit was \$60 billion, or 2% of U.S. gross national product. So far this year, the same long-term rate is about 11% while the projected deficit is \$191 billion (for calendar year 1983), about 6% of GNP. In other words, the deficit tripled as a percentage of the total economy and long-term bond rates have dropped by more than a quarter.

It is a widespread myth that the real rate of interest in the United States at present is high. This is emphasized especially by those who blame most of the world's ills on the high real rate of interest in the United States. They are just imagining that it's high; it's not. In fact, there is no evidence at all that the real rate in the United States today is high.

How is the real rate of interest calculated? The correct way is to take the nominal rate of interest and subtract from it the anticipated rate of inflation. The incorrect, but common, way is to take the nominal rate and subtract the current rate of inflation. At present, there is a substantial discrepancy between the current and the anticipated rates of inflation. Consequently, there is a substantial difference between the real real rate and the unreal real rate.

The nominal rate of interest currently is something on the order of 10%. A recent survey of businessmen shows that they anticipate a rate of inflation of 6-7% for the next 10 years. This implies that the real real rate of interest currently is 3-4%, which is in line with historical experience. The unreal, or erroneous, real rate, however, appears to be 7 or 8% if the current rate of inflation is 2 or 3%.

Why the discrepancy between the current and the anticipated rates of inflation? The answer, I think, is experience. Since the Second World War, the U.S. Government has said con-

tinuously and emphatically that it was going to eliminate inflation. Inflation has, in fact, been essentially eliminated three or four times in that period. Mark Twain said that he knows that it is easy to stop smoking, because he has done it many times. Similarly, we can say that it is easy to stop inflation: we know, because we have done it several times. After each time, however, we went back to a rate of inflation that was even higher than the one we cured. People in the market are aware of this; so, regardless of the intentions of the Administration, they are going to be slow to conclude that inflation really has been brought under lasting control. If, in fact, inflation is kept under control for a period, people in the market will gradually regain confidence and lower their anticipations of the rate of inflation. After all, until about 20 years ago, the United States had very little inflation except in times of war. The average rate from the beginning of the government until 20 years ago, omitting periods of war, was about zero, and perhaps even half a percent negative. So there is a real chance of bringing real interest rates down, provided that the government manages to "stay the course." The only way to lower the real rate of interest is to gain credibility for government intentions.

Deficits and Taxes. Since the Reagan Administration proposed and the Congress passed a major tax bill cutting marginal tax rates and then indexing tax rates to eliminate so-called bracket creep, it is assumed by many that the deficit is due to insufficient taxation. Why else would we be hearing so many voices in Washington advocating cancellation of the 1983 tax rate cut or elimination of indexation? But taxes are not the issue, nor as I just said, are deficits; the issue is government spending. Government spending uses up resources and leaves fewer resources for the private sector. If resources are used less efficiently in the public sector than in the private sector, overall efficiency falls. Even if the same number of people are at work, total output is less useful, less valuable. This is the equivalent of a fall in output. I believe that we are well past this point at the present time in most areas of government expenditures. This is the major reason for shrinking the public sector in order to make possible a larger total pie.

If more resources are to be channeled into the public sector, higher taxes depress private sector activity, thereby freeing resources and making them

available for the public sector. However, when President Reagan took office tax rates had become so high—largely because effective rates had been driven up by inflation rather than being explicitly legislated by Congress—that the private sector was too depressed for our own good. Moreover, the depressive effects of high and rising marginal tax rates have differentially depressed saving, capital formation, and risk taking more than consumption, and reduced work effort more than leisure.

High taxes worked all too well in curtailing private sector activity. We needed a reduction in marginal tax rates, especially those taxes that discourage investment, saving, risk taking, and work. We also needed a reduction in marginal tax rates to undo some or all of the bracket creep of recent years. To achieve these results, the President's program proposed a permanent and predictable cut in marginal tax rates, including indexation of the tax system to prevent future bracket creep. Higher taxes would only reduce output, employment, and economic growth.

I believe we hear so little about speeding up or enlarging tax cuts and so much about rescinding the 1983 tax cut and the future indexing of the Federal tax code precisely because there is a well understood link between revenues and government spending. Spenders simply want the revenues to maintain or to expand government spending. Spenders want control of more income so they can spend it the way they wish.

Understandably, the big spenders are fighting hard to retain the revenue system that depends on inflation-induced, unlegislated tax rate increases—bracket creep—under which they have prospered while the economy has suffered. To succeed, the big spenders need, as before, the cooperation of fiscal conservatives eager or willing to raise taxes to reduce deficits. In the process, fiscal conservatives become the tax collectors for spenders. After each tax increase, deficits don't really decline because expenditures tend to rise at least as fast as revenues. Many of us who supported, and continue to support, tax reduction and indexation of the tax code do so precisely because we believe that restraining revenues is necessary to restrain government spending.

This is why deficits do matter and must be reduced. Deficits are the measure of indiscipline in government spending. The Williamsburg declaration contained a commitment to reduce budget deficits—not by raising taxes but by limiting the growth of expenditures. The Administration remains committed to this goal.

These elements—the facts that recovery is well underway in the United States and elsewhere; that the summit leaders have agreed on a strategy that gives real promise it will be sustained and noninflationary; and their commitments to assure it is transmitted to other countries through positive action to reduce trade barriers and maintain an adequate flow of financial resources to

manage current international debt problems—can indeed give us confidence that we will be able to meet and surmount the challenges we face in the future. However, as I stressed earlier, it is what we do, not what we say that is the only guarantee of our success. Thus, the real judgment on the prospects for global recovery and sustainable growth will be determined by our actions in the months to come. Williamsburg laid the foundations on which we can build; it will be up

to the governments represented there, in cooperation with their partners in other countries, to make the Williamsburg concepts reality. ■

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THE WHITE HOUSE
Office of the Press Secretary

FACT SHEET
United States Economic Status
First Quarter 1984

Gross National Product

Gross National Product in the first three months of 1984 grew at a rate of 8.8 percent. Solid real growth has been accomplished in an environment of low inflation, improved productivity, and restored business profitably. There were signs that economic activity began to slow at the end of the quarter and real growth in the second quarter is expected to proceed at a more moderate pace.

Unemployment

Civilian unemployment fell from a peak rate of 10.7 percent at the end of 1982 to 7.8 percent in April 1984. Civilian employment increased by 5.4 million over the same time span to a new record of 104.4 million Americans working.

Inflation

Inflation, as measured by the implicit GNP deflator, rose only 3.7 percent in the first quarter. It was 4.1 percent for all of 1983, the smallest increase for any year since 1967. Inflation at the wholesale level in April did not increase. It was up at an annual rate of 6.0 in the first quarter. The Consumer Price Index rose at a seasonally adjusted annual rate of 5.0 in the first quarter.

Leading Indicators

The leading economic indicators, which predict economic activity in the months ahead, were down 1.1 percent in March 1984. This is the first drop in 19 months. This decline tends to confirm predictions of moderating growth in the economy in the second quarter.

Housing Sales

Housing starts in the first quarter were at a 2.0 million unit seasonally adjusted annual rate, their fastest pace in over five years. Starts continued at the same rate in April.

MORE

New Car Sales

Total new car sales were at 10.6 million unit annual rate in the first quarter, up from a low 8.0 million rate through all of 1982. Sales of domestic models were particularly strong, averaging an 8.2 million unit rate in the first quarter.

Administration Forecasts 1984

GNP: 5 percent, fourth quarter over fourth quarter

GNP Deflator: 4.9 percent

Unemployment: 7.5 percent (in fourth quarter)

Interest Rates: Three month Treasury Bills 8.5%.

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ECONOMIC GROWTH OF OECD COUNTRIES, 1973-1983

This annual report presents data on the gross national product (GNP) and the economic growth of members of the Organization for Economic Cooperation and Development (OECD)^{1/} over the past decade. The period covered is 10 years; 1973 data are also shown because 1973 is taken as the base year. Similarly, the two 5-year periods (1973-78 and 1978-83) include 1973 and 1978, respectively, as the base years. Calculations are measured in 1983 constant dollars, converted for all years by the 1983 average par rate/market rate as published by the International Monetary Fund (IMF). The growth rates therefore represent real growth, because the effects of inflation are eliminated.

The most important findings are:

- US GNP grew by 3.3 percent in 1983, compared with a decline of 1.9 percent in 1982 and a growth of 2.6 percent in 1981.
- European OECD countries showed an aggregate growth of 1.0 percent in 1983, compared with a growth of 0.6 percent in 1982. Three countries (Iceland, Italy, Luxembourg) showed declines.
- The growth (or decline) rates of the 19 European OECD countries in 1983 varied from a decline of 5.8 percent for Iceland to zero growth for Belgium, Greece, and Switzerland and a growth of 3.0 percent for Turkey. Nine countries showed growth rates between 1.0 percent (Austria) and 2.5 percent (the United Kingdom).

^{1/} See Notes, p. 5, for a listing of member countries in the OECD and other organizations used in the tables of this report.

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Report 809-AR
March 29, 1984

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--Last year, for the first time since this report started publication in 1968, Japan did not lead the OECD countries in economic growth for the 10-year period; it was overtaken by Turkey. In this year's report the difference is even larger, owing to completely revised figures for Turkey. Japan's average annual growth rate for the 1973-83 period was 3.7 percent, behind Turkey's 5.1 percent. Japan's growth rate for 1983 was 3.0 percent, the same as in 1982.

The US was second in per capita GNP in 1983, after Switzerland. In contrast the US occupied 10th place in 1980, owing to the weakness of the dollar at that time.

For interpretation of the absolute levels of GNP and per capita GNP in Tables I and V, the market exchange rates used in converting national currencies do not necessarily reflect the relative purchasing power in the various countries. As a consequence, it should not be concluded, for instance, that Switzerland's individual standard of living in 1983 was 12 percent higher than that of the US, or that the UK's was 44 percent lower, as the statistics may imply.

The three countries with the highest growth rates over the decade were:

Turkey	64.5%
Japan	43.5%
Norway	40.9%

During the same period, the countries with the lowest growth rates were:

New Zealand	8.8%
Luxembourg	7.1%
Switzerland	3.2%

This rank-ordering of countries varies if the 10-year performance is divided into 5-year periods. The countries with the highest growth rates over the first 5 years, 1973-78, were:

Turkey	49.0%
Norway	26.8%
Ireland	23.2%

The countries with the lowest growth rates for that 5-year span were:

Luxembourg	5.2%
New Zealand	4.2%
Switzerland	-4.1%

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The countries with the highest growth rates over the second 5-year period, 1978-83, were:

Japan	21.6%
Finland	21.4%
Portugal	15.9%

During that period, the countries with the lowest growth rates were:

Iceland	2.3%
Netherlands	2.2%
Luxembourg	1.8%

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Approved by Alan W. Lukens
632-9214

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NOTES

- 1) This report is based on National Accounts data available in February 1984. All data are preliminary.
- 2) Data are shown in constant 1983 dollars, converted for all years by the average 1983 par rate/market rate, as published by the International Monetary Fund.
- 3) Data are not adjusted for differences in the purchasing power of the dollar outside the US (see p. 2).
- 4) Gross domestic product (GDP) data were adjusted to GNP by applying the ratio between GNP and GDP, derived from International Monetary Fund statistics.
- 5) Growth data are based on either GNP or GDP and are completely revised. GNP data are expressed in billions of dollars, but all calculations are based on unrounded data.
- 6) OECD countries: Australia, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.
- 7) EC countries: Belgium, Denmark, Federal Republic of Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, and United Kingdom.
- 8) NATO countries: Belgium, Canada, Denmark, Federal Republic of Germany, France, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Turkey, United Kingdom, and United States.

SOURCES

GNP: US data: Council of Economic Advisers, Economic Report of the President, 1984. All other data are estimates, based on OECD's Economic Outlook, December 1983.

Population: US data: Council of Economic Advisers, Economic Report of the President, 1984. All other data are preliminary estimates by the US Bureau of the Census.

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TABLE 1. GNP FOR OECD COUNTRIES, 1973-1983
(in billions of 1983 dollars, at constant 1983 prices)

Country or Area	Currency Unit per US dollars <u>a/</u>	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Belgium	51.1317	69.0	72.1	70.7	74.6	75.1	77.5	79.4	82.0	81.1	81.9	81.9
Denmark	9.145	45.1	44.8	44.4	47.2	48.3	49.2	51.0	50.6	50.7	52.6	53.5
France	7.6213	411.1	424.2	425.1	447.2	461.0	478.6	494.4	499.8	501.3	510.8	513.4
Federal Republic of Germany	2.5533	554.8	557.6	548.3	578.5	596.4	614.9	640.7	652.3	651.6	644.5	652.6
Greece	88.0642	28.4	27.4	29.1	31.0	32.0	34.2	35.4	36.0	35.9	35.9	35.9
Ireland	0.80468	12.2	12.7	12.9	13.2	14.1	15.0	15.5	16.1	16.3	16.5	16.6
Italy	1,518.85	292.3	304.3	293.7	311.1	317.0	325.5	341.5	354.8	355.2	354.1	348.9
Luxembourg	51.1317	3.09	3.21	3.03	3.09	3.11	3.25	3.39	3.45	3.39	3.36	3.31
Netherlands	2.8541	114.1	118.1	116.9	123.1	126.1	129.2	132.4	133.6	132.5	130.4	132.0
UK	0.65973	406.6	403.0	399.4	414.2	419.2	433.8	442.5	431.3	425.8	434.3	445.2
Total EC of Ten	-	1,936.7	1,967.4	1,943.5	2,043.2	2,092.3	2,161.2	2,236.2	2,260.0	2,253.8	2,264.4	2,263.3
Iceland	24.0843	1.80	1.88	1.87	1.94	2.06	2.15	2.24	2.34	2.40	2.33	2.20
Norway	7.2964	37.6	39.6	41.2	44.0	45.6	47.7	50.1	52.3	52.4	52.2	53.0
Portugal	110.78	15.2	15.4	14.7	15.8	16.6	17.2	18.4	19.1	19.2	19.9	20.0
Spain	143.428	126.5	133.7	135.2	139.3	143.9	146.5	146.8	149.0	149.3	151.4	154.4
Turkey	231.03	30.3	34.1	37.5	41.6	43.7	45.1	44.3	44.2	46.2	48.3	49.8
Total European NATO <u>b/</u>	-	2,135.9	2,179.4	2,161.1	2,272.6	2,330.1	2,404.9	2,482.5	2,510.8	2,507.0	2,522.0	2,546.1
Austria	17.9633	53.1	55.2	54.9	57.5	60.0	60.3	63.2	65.1	65.0	65.7	66.4
Finland	5.5701	35.7	36.8	37.1	37.2	37.3	38.2	41.1	43.6	44.2	45.3	46.4
Sweden	7.6671	77.5	80.0	82.1	83.0	81.7	83.1	86.3	87.8	87.3	87.9	89.4
Switzerland	2.0991	99.4	100.9	94.0	92.7	95.0	95.3	97.7	102.2	103.8	102.5	102.5
Total European OECD	-	2,413.8	2,465.0	2,442.1	2,556.2	2,618.2	2,696.8	2,786.3	2,825.6	2,823.6	2,839.9	2,867.4
US	-	2,707.0	2,690.9	2,659.0	2,802.5	2,956.7	3,104.5	3,191.5	3,181.9	3,264.6	3,203.8	3,309.5
Canada	1.2324	250.6	259.4	262.3	278.3	284.4	295.5	305.6	308.6	321.0	307.4	316.7
Total NATO <u>c/</u>	-	5,093.5	5,129.7	5,082.4	5,353.4	5,571.2	5,804.9	5,979.6	6,001.3	6,092.6	6,033.2	6,172.3
Japan	237.52	805.5	797.5	815.9	859.1	904.7	949.9	998.4	1,047.3	1,089.2	1,121.9	1,155.5
Australia	1.1098	120.6	122.8	125.9	129.9	131.2	134.8	140.6	142.8	148.7	148.7	146.9
New Zealand	1.4968	19.7	20.9	20.8	21.3	20.4	20.5	20.2	20.8	21.4	21.5	21.4
Total OECD <u>d/</u>	-	6,317.2	6,356.5	6,326.0	6,647.3	6,915.6	7,202.0	7,442.6	7,527.0	7,668.5	7,643.2	7,817.4

a. Converted by the average 1983 par rate/market rate, as published by the International Monetary Fund.

b. Total of countries listed above, except Ireland.

c. Total European NATO plus the US and Canada.

d. Total European OECD plus the US, Canada, Japan, Australia, and New Zealand.

See page 5 for notes.

TABLE II. ANNUAL GROWTH OF GNP FOR OECD COUNTRIES, 1973-1983
(percentage changes over previous year, based on Table I)

Country or Area	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Belgium	4.5	-1.9	5.5	0.6	3.2	2.5	3.2	-1.1	1.0	0.0
Denmark	-0.7	-1.0	6.5	2.3	1.8	3.7	-0.8	0.2	3.6	1.8
France	3.2	0.2	5.2	3.1	3.8	3.3	1.1	0.3	1.9	0.5
Federal Republic of Germany	0.5	-1.7	5.5	3.1	3.1	4.2	1.8	-0.1	-1.1	1.3
Greece	-3.6	6.1	6.4	3.4	6.7	3.7	1.6	-0.4	0.0	0.0
Ireland	4.3	2.0	2.2	6.8	5.8	3.4	3.7	1.6	1.2	0.5
Italy	4.1	-3.6	5.9	1.9	2.7	4.9	3.9	0.1	-0.3	-1.5
Luxembourg	3.6	-6.1	1.9	0.6	4.5	4.0	1.7	-1.8	-1.0	-1.5
Netherlands	3.5	-1.0	5.3	2.4	2.5	2.4	0.9	-0.8	-1.6	1.3
UK	-0.9	-0.9	3.7	1.2	3.5	2.0	-2.6	-1.3	2.0	2.5
Total EC of Ten	1.6	-1.2	5.1	2.4	3.3	3.5	1.1	-0.3	0.5	0.8
Iceland	4.0	-0.5	3.5	5.8	3.9	4.1	4.1	2.2	-3.1	-5.8
Norway	5.2	4.2	6.8	3.6	4.5	5.1	4.3	0.3	-0.5	1.5
Portugal	1.1	-4.3	6.9	5.6	3.4	6.6	4.1	0.5	3.5	0.3
Spain	5.7	1.1	3.0	3.3	1.8	0.2	1.5	0.2	1.4	2.0
Turkey	12.5	10.1	10.8	5.1	3.2	-1.7	-0.3	4.5	4.6	3.0
Total European NATO <u>a/</u>	2.0	-0.8	5.2	2.5	3.2	3.2	1.1	-0.2	0.6	1.0
Austria	3.9	-0.4	4.6	4.4	0.5	4.7	3.0	-0.1	1.1	1.0
Finland	3.2	0.6	0.3	0.4	2.3	7.6	6.0	1.5	2.5	2.3
Sweden	3.2	2.6	1.1	-1.6	1.8	3.8	1.7	-0.5	0.6	1.8
Switzerland	1.5	-7.3	-1.4	2.4	0.4	2.5	4.6	1.5	-1.2	0.0
Total European OECD	2.1	-0.9	4.7	2.4	3.0	3.3	1.4	-0.1	0.6	1.0
US	-0.6	-1.2	5.4	5.5	5.0	2.8	-0.3	2.6	-1.9	3.3
Canada	3.5	1.1	6.1	2.2	3.9	3.4	1.0	4.0	-4.4	3.0
Total NATO <u>b/</u>	0.7	-0.9	5.3	4.1	4.2	3.0	0.4	1.5	-1.0	2.3
Japan	-1.0	2.3	5.3	5.3	5.0	5.1	4.9	4.0	3.0	3.0
Australia	1.8	2.5	3.2	1.0	2.7	4.3	1.6	4.1	0.0	-1.3
New Zealand	6.2	-0.4	2.1	-4.4	0.7	-1.7	3.2	2.8	0.5	-0.5
Total OECD <u>c/</u>	0.6	-0.5	5.1	4.0	4.1	3.3	1.1	1.9	-0.3	2.3

a. Total of countries listed above, except Ireland.

b. Total European NATO plus the US and Canada.

c. Total European OECD plus the US, Canada, Japan, Australia, and New Zealand.

See page 5 for notes.

TABLE III. TOTAL GROWTH OF GNP FOR OECD COUNTRIES
1973-1983, 1973-1978, and 1978-1983

Country or Area	Percentages		
	1973-1983	1973-1978	1978-1983
Belgium	18.8	12.4	5.7
Denmark	18.6	9.1	8.7
France	24.9	16.4	7.3
Federal Republic of Germany	17.6	10.8	6.1
Greece	26.3	20.3	5.0
Ireland	36.7	23.2	11.0
Italy	19.4	11.4	7.2
Luxembourg	7.1	5.2	1.8
Netherlands	15.7	13.3	2.2
UK	9.5	6.7	2.6
Total EC of Ten	17.9	11.6	5.6
Iceland	22.2	19.4	2.3
Norway	40.9	26.8	11.1
Portugal	31.3	13.3	15.9
Spain	22.0	15.8	5.4
Turkey	64.5	49.0	10.4
Total European NATO ^{a/}	19.2	12.6	5.9
Austria	25.1	13.6	10.1
Finland	29.9	7.0	21.4
Sweden	15.3	7.3	7.5
Switzerland	3.2	-4.1	7.6
Total European OECD	18.8	11.7	6.3
US	22.3	14.7	6.6
Canada	26.3	17.9	7.2
Total NATO ^{b/}	21.2	14.0	6.3
Japan	43.5	17.9	21.6
Australia	21.7	11.7	9.0
New Zealand	8.8	4.2	4.4
Total OECD ^{c/}	23.7	14.0	8.5

a. Total of countries listed above, except Ireland.

b. Total European NATO plus the US and Canada.

c. Total European OECD plus the US, Canada, Japan, Australia, and New Zealand.

See page 5 for notes.

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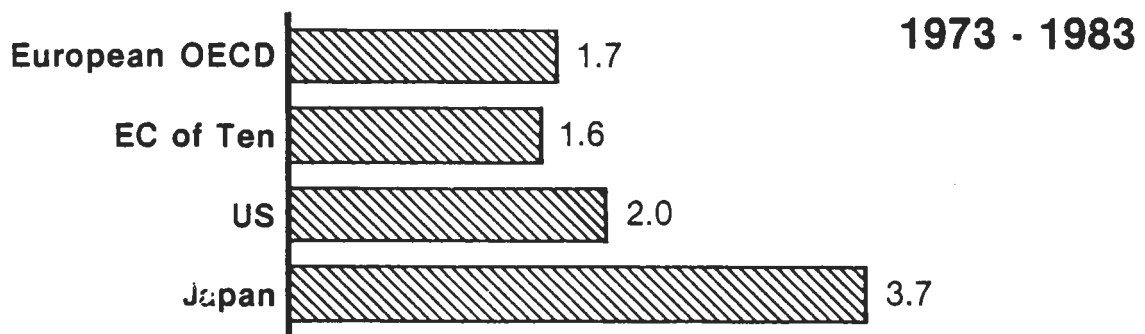
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TABLE IV. AVERAGE* ANNUAL GROWTH OF GNP FOR OECD COUNTRIES
1973-1983, 1973-1978, and 1978-1983

(percentages, arranged in order of magnitude, based on Table III)

1973-1983		1973-1978		1978-1983	
Turkey	5.1	Turkey	8.3	Japan	4.0
Japan	3.7	Norway	4.9	Finland	4.0
Norway	3.5	Ireland	4.3	Portugal	3.0
Ireland	3.2	Greece	3.8	Norway	2.1
Portugal	2.8	Iceland	3.6	Ireland	2.1
Finland	2.6	Canada	3.4	Turkey	2.0
Canada	2.4	Japan	3.4	Austria	1.9
Greece	2.4	France	3.1	Australia	1.7
Austria	2.3	Spain	3.0	Denmark	1.7
France	2.2	US	2.8	Switzerland	1.5
US	2.0	Austria	2.6	Sweden	1.5
Iceland	2.0	Netherlands	2.5	France	1.4
Spain	2.0	Portugal	2.5	Canada	1.4
Australia	2.0	Belgium	2.4	Italy	1.4
Italy	1.8	Australia	2.2	US	1.3
Belgium	1.7	Italy	2.2	Fed. Rep. of Germany	1.2
Denmark	1.7	Fed. Rep. of Germany	2.1	Belgium	1.1
Fed. Rep. of Germany	1.6	Denmark	1.8	Spain	1.1
Netherlands	1.5	Sweden	1.4	Greece	1.0
Sweden	1.4	Finland	1.4	New Zealand	0.9
UK	0.9	UK	1.3	UK	0.5
New Zealand	0.8	Luxembourg	1.0	Iceland	0.5
Luxembourg	0.7	New Zealand	0.8	Netherlands	0.4
Switzerland	0.3	Switzerland	-0.8	Luxembourg	0.3
<u>GROUP OF COUNTRIES</u>					
Total OECD	2.2	Total NATO	2.7	Total OECD	1.6
Total NATO	1.9	Total OECD	2.7	Total NATO	1.2
European NATO	1.8	European NATO	2.4	European OECD	1.2
European OECD	1.7	European OECD	2.2	European NATO	1.2
EC of Ten	1.6	EC of Ten	2.2	EC of Ten	1.1

*Compound annual growth rates.



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TABLE V. GNP FOR OECD COUNTRIES, TOTAL AND PER CAPITA, 1983

Country or Area	Population ^{a/} (mid-year, millions)	GNP (1983 dollars, billions)	Per Capita GNP (1983 dollars)
Belgium	9.86	81.9	8,308
Denmark	5.12	53.5	10,447
France	54.60	513.4	9,403
Federal Republic of Germany	61.54	652.6	10,604
Greece	9.90	35.9	3,622
Ireland	3.53	16.6	4,705
Italy	56.35	348.9	6,191
Luxembourg	0.37	3.3	8,946
Netherlands	14.37	132.0	9,188
UK	56.01	445.2	7,948
Total EC of Ten	271.65	2,283.3	8,405
Iceland	0.24	2.2	9,167
Norway	4.13	53.0	12,826
Portugal	10.01	20.0	1,993
Spain	38.23	154.4	4,038
Turkey	49.16	49.8	1,014
Total European NATO ^{b/}	369.89	2,546.1	6,883
Austria	7.57	66.4	8,769
Finland	4.85	46.4	9,559
Sweden	8.33	89.4	10,731
Switzerland	6.46	102.5	15,873
Total European OECD	400.63	2,867.4	7,157
US	234.25	3,309.5	14,128
Canada	24.88	316.7	12,728
Total NATO ^{c/}	629.02	6,172.3	9,813
Japan	119.21	1,155.5	9,693
Australia	15.27	146.9	9,617
New Zealand	3.14	21.4	6,815
Total OECD ^{d/}	797.38	7,817.4	9,804

a. All population data are preliminary estimates by the US Bureau of the Census, except for the US, where the source is the Economic Report of the President, 1984. Calculations for per capita GNP are based on unrounded data.

b. Total of countries listed above, except Ireland.

c. Total European NATO plus the US and Canada.

d. Total European OECD plus the US, Canada, Japan, Australia, and New Zealand.

See page 5 for notes.

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Chart I
"Real" Growth of GNP for European OECD,
the EC of Ten, the US and Japan

1973 - 1983

Percentages 1973 = 100

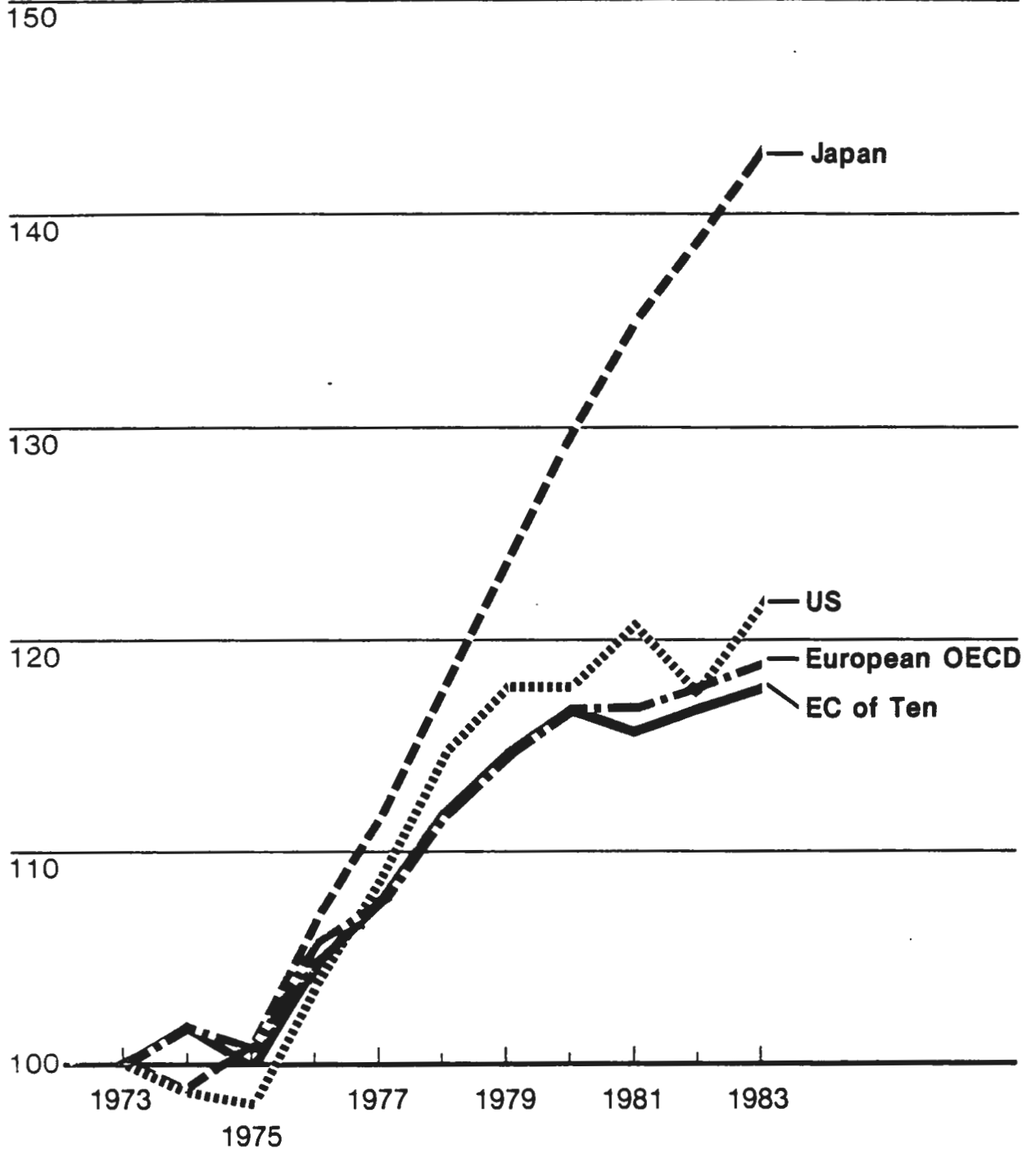
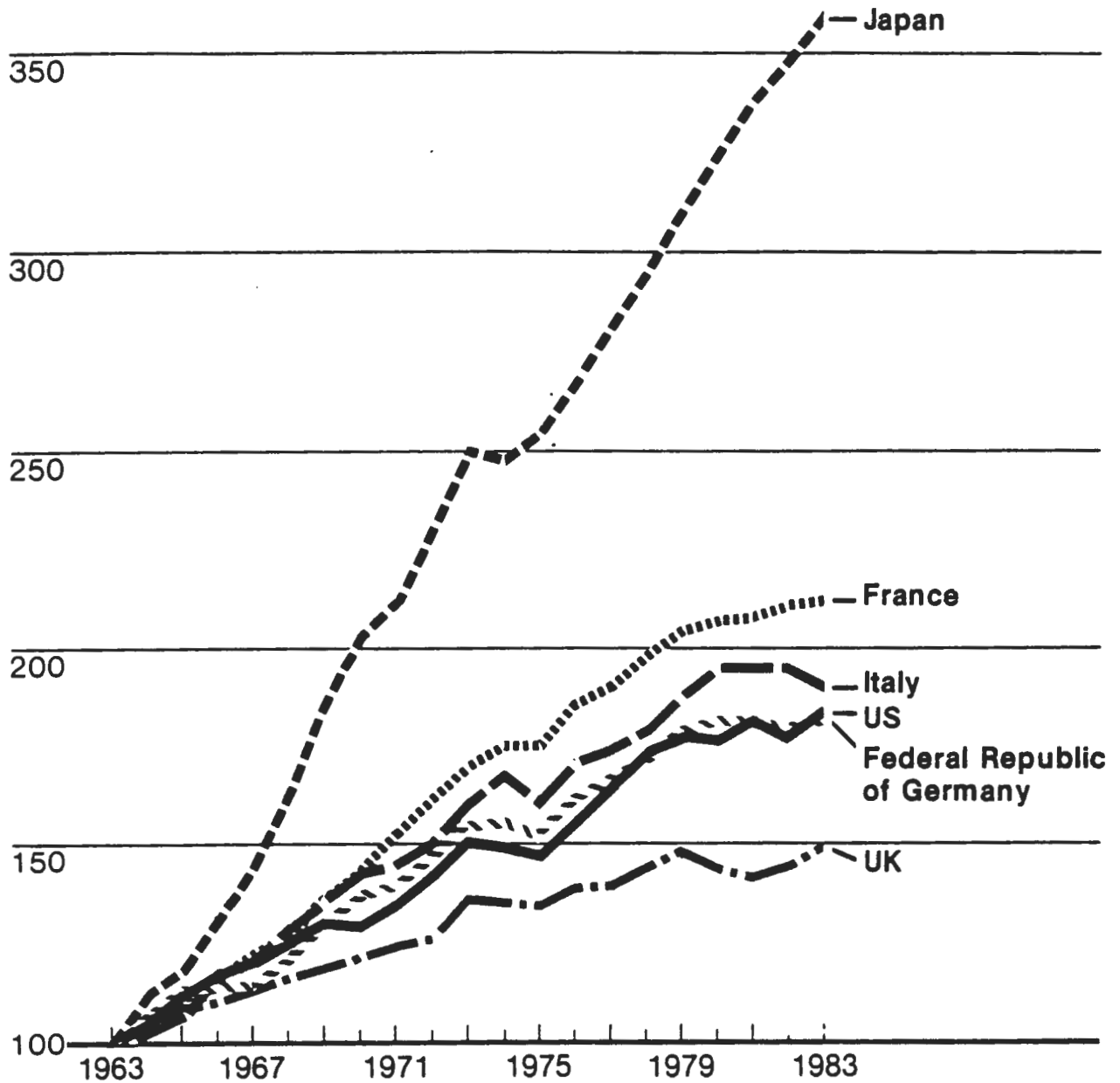


Chart II
"Real" Growth of GNP for Selected Countries

1963 - 1983

Percentages 1963 = 100

400



Real GNP/GDP Growth Rates
(year-over-year)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	2.6	-1.9	3.3
U.K.	-1.9	1.4	2.2
France	0.1	2.0	0.2
Germany	-0.2	-1.1	1.3
Japan	3.9	3.3	3.0
Canada	3.4	-4.4	3.0
Italy	0.1	-0.3	-1.4

- All Summit countries (except France and Italy) established recovery in 1983. Growth should strengthen in 1984.
- UK, Germany strongest in Europe last year. Even better performance in 1984 should pull other European countries along.
- UK recovery should strengthen due to investment measures introduced in their recent budget.
- Italy began upturn late last year. Will do much better in 1984.
- France still adjusting. Recovery not expected to begin until second half of this year.

Consumer Price Increases
(Annual Averages)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	10.3	6.1	3.2
U.K.	11.8	8.6	4.6
France	13.4	11.8	9.2
Germany	6.0	5.3	3.0
Japan	4.9	2.7	1.9
Canada	12.5	10.8	5.8
Italy	18.7	16.3	15.0

- All (except France and Italy) have reduced inflation to generally low rates. Inflation now back to pre-OPEC (1972) levels.
- Both France and Italy stand out, with considerably less progress made in reducing inflation rates. Some improvement expected in 1984, but will still be large difference between inflation rates in France and Italy and those in other Summit countries.
- This year, high growth and low inflation is expected for the U.S., UK, Germany and Japan. France will have rising growth and declining inflation, while Italy will have solid growth and still high inflation.

Current Account Balances
(Billions of U.S. Dollars)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	4.6	-11.2	-40.8
U.K.	13.2	9.8	3.7
France	-4.7	-12.0	-4.2
Germany	-6.5	3.5	4.0
Japan	4.8	6.9	20.8
Canada	-4.8	2.4	1.3
Italy	-8.1	-5.5	0.5

- Major development is large rise in U.S. current account deficit, which is likely to reach \$80 billion this year.
- Rise in U.S. deficit reflects U.S. recovery ahead of the pack, weak U.S. exports to adjusting LDCs, and effects of earlier appreciation of the dollar.
- U.S. current account deficits helping economic recovery and adjustment abroad. Last year, U.S. imports from non-OPEC LDCs rose by \$9.4 billion; imports from industrial countries up \$11 billion.

Current Account Balances as Percent of GNP/GDP

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	0.2	-0.4	-1.2
U.K.	2.6	2.0	0.8
France	-0.8	-2.2	-0.8
Germany	-0.9	0.5	0.6
Japan	0.4	0.6	1.8
Canada	-1.7	0.8	0.4
Italy	-2.3	-1.6	0.1

-- This graph puts current account balances in perspective by showing them in terms of size of economies.

-- U.S. current account deficit (projected at 2.4% of GNP in 1984) not out of line with what other countries have experienced in recent years, e.g., Italy in 1981, and France in 1982.

Average Short-Term Nominal Interest Rates

	<u>January:</u>		
	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	16.7	13.4	8.4
U.K.	14.3	15.1	11.2
France	11.4	15.0	12.5
Germany	9.4	10.4	5.8
Japan	8.9	6.6	6.7
Canada	16.8	14.9	9.8
Italy	17.4	21.4	19.0

- In most countries rates have fallen dramatically from 1981 levels.
- Largest interest rate decline where largest drop in inflation:
U.S., U.K., Canada.
- Low rates in lowest inflation countries: Japan, Germany.
- High rates in Italy, France reflect inflation problems.

Government Deficit as Share of GNP
(Federal, State and Local)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	0.9	3.8	4.0
U.K.	4.5	2.2	3.6
France	1.8	2.6	3.1
Germany	3.9	3.5	3.1
Japan	4.2	4.1	4.1
Canada	1.1	5.3	5.9
Italy	13.7	16.1	16.8

- All (except Canada and Italy) kept deficits between 3-4% GNP in 1983.
- Forecasts show deficits as percent of GNP falling in all countries except France.
- Italy continues to run largest deficit as share of GNP among Summit countries, reaching 16.8% in 1983.
- Canada has experienced worst deterioration in the last few years, with deficit rising from just over 1% in 1981 to 6% in 1983, but expected to improve to 4% in 1984.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 1:40 PM
SUNDAY, MAY 13, 1984

Remarks by
Secretary of the Treasury
Donald T. Regan
before American University
May 13, 1984

Having sat through graduating ceremonies a number of times myself, I intend to follow the advice of an old professor of mine who said, when delivering a speech, "have a good beginning, a good ending and make sure the two are close together."

Therefore, I intend to be brief, to be sincere and to be seated.

The American University has a special place in my family. Two of my four children were graduated from here. My son, Richard earned his MBA as a member of the Class of 1976 and my daughter Donna -- well, I think she would appreciate it if I simply said she graduated a few years before Richard.

Speaking of my family reminds me today is more than just your commencement, it's also Mother's Day.

There's something appropriate about that. Your parents have provided you with life, love and opportunity. Your graduation is a symbol of that opportunity -- as the fact that today is Mothers Day is a symbol of the life and love which gave you such an opportunity. And I'd like to join all of you in saluting not only our own mothers, but all mothers, everywhere.

I know my family is important to me. I remember the time when I left Wall Street to become Treasury Secretary. At my first press conference, a reporter asked me "I suppose, Mr. Secretary, that you will consult the powerful interests that control you in making decisions?"

I told him to, keep my wife's name out of this conversation."

This is, the second time I have addressed a graduating class at American University and their guests. I had the privilege of being here in 1974. And, as I stand here it's natural to look back at that time, and the decade which has since slipped by.

As I remember 1974, it was not an especially happy time in the history of our nation. We were about to pull out of the quagmire of Vietnam, the first President in our history was on the way to resigning, and the economy was in deep recession, the worst since World War II, and the first to threaten the post-war international banking system.

As far as our national mood was concerned, we had lost a great deal of faith in our system, and maybe even in ourselves. We had turned away. We had buried our heads. We thought first of self and seldom of our nation. Tom Wolfe disparagingly called it the "me decade."

Now with the advantage of hindsight, we can see where we were truly heading. Despite recovery in 1975, we were still destined to reap the fruits of unsound policies. From the middle of the decade on, we were tip-toeing -- sometimes even running -- to the brink of an economic abyss.

Inflation would soar to double digits. Interest rates would exceed the inflation rate. Productivity would fall. The dollar would plummet. The economists and historians know the story.

And yet, here I stand today talking to you from an entirely different vantage point.

We are in the midst of solid economic recovery; in fact, I now call it economic expansion. Inflation is down to 4 percent. The dollar is strong and stable. Growth is evident and the future looks bright.

You are setting out on your great adventure with an almost incomparable advantage over your predecessors of a decade ago.

As you become providers for the next generation, you will enter a world that is in many senses much smaller than the one I entered, and indeed, the one graduates of ten years ago entered.

All of us are increasingly inter-dependent. Nations of all sizes have discovered that an isolated event in one part of the globe can reverberate around the world.

A drought in Africa will impact London, New York and yes, even Moscow. Every night you are a participant in the events in every corner of the world on your television.

Yet as an American, sometimes it's not fun to watch. We're blamed for everything. The fact that we are dominant puts us in a position of scapegoat for the rest of the world's problems.

And I mean everything. Sometimes it seems whatever we do we're wrong. When the dollar was weak in the late 70s, we were told that was the cause of global economic problems.

It was on the cover of magazines everywhere in 1979. It was trumpeted by our foreign friends as the cause of all economic problems. So we strengthened it.

Then we were told that high interest rates were the cause of all economic woe. So we halved them.

But the dollar came back strong reflecting the fact that the U.S. bit the bullet -- we wrung inflation out of our economy, we put in place incentives like the tax cuts, we cut excessive spending, and have produced ultimately a sound economy with the promise of long term non-inflationary growth.

You'd think that would satisfy our critics -- but no. They complained about a too strong dollar.

There is no question that dollar appreciation has made imported goods highly competitive in our market, and made it more difficult for our exporters to compete abroad. But I cannot agree with that extra leap by which one concludes that the dollar is "too high." The dollar's foreign exchange value is what it is: exchange rates are determined by market forces, and if the market's assessment is that the U.S. economy is stronger than others and the outlook is better than others for strong economic growth without inflation, and the environment continues to increase incentives, like lowering tax rates, and fostering deregulation and U.S. dollar assets are more desirable; there is little we can do -- short of weakening our economy -- to convince it otherwise.

The charge that the dollar is strong because of high U.S. interest rates simply doesn't square with the facts. There is more than just high interest rates in the strength of the dollar. The dollar's current upturn was initiated by a shift from inflationary U.S. policies to anti-inflationary ones, and it has been sustained since then by the wide variety of other factors which I have mentioned. But there are others too.

They include: The dramatic improvement in U.S. inflation performance contrasted with continued high inflation in some major foreign countries; doubts about the political resolve of other countries to resist pressures to inflate; the impact of the President's Economic Recovery Program on the prospects for American business and the American economy; deep-seated pessimism in Europe about the longer-term future; political upheaval in areas such as Afghanistan, Poland, and the Middle East; and a general perception that the U.S. economy and currency are uniquely safe places to keep money in a turbulent world.

So, why shouldn't the United States be a more desirable place to put money? Its good record and future prospects warrant it.

What would they have us do? Bring back inflation? Bring back super high interest rates? Weaken our economy? How could that help anybody, including our friends overseas?

Another complaint from some of our friends concerns our trade deficit.

Well, the truth about our trade deficit is that the huge influx of imports into this country is the pre-eminent cause of the trade deficit. A question to ask ourselves: is that necessarily bad?

First, of course, our consumers benefit from all these imports. But who else benefits? Obviously, those who supply the imports as well. Those nations doing the exporting are benefitting from the trade deficit. To whom would they export if we didn't have a sound economy -- who would buy their goods?

The fact of the matter is that the trade deficit is advantageous to those overseas critics. If we hadn't allowed all the imports, if we had closed our markets -- where would these countries find the engine that would have pulled them into world wide economic expansion. Let me suggest they would be left on the track motionless.

Another factor in foreign inertia is the enormous debt problems of many key developing countries. These debts have caused them to curtail sharply their purchases of American goods and services, our exports, while pushing even harder to export goods themselves.

But at last, most of our friends are recognizing this. So they have fielded a new complaint -- a new cause for their economic problems -- this time they blame the U.S. deficit.

Quite simply, the U.S. budget deficit is not the cause of all the world's economic problems. Were the U.S. budget deficit to disappear, other countries would face essentially the same economic problems and choices they do now. Countries with unsound and inflationary policies would still have poor growth prospects and sky high inflation rates.

Countries with rigid labor markets, underdeveloped capital markets, and subsidized and unrealistic industrial structures would still need to address these substantial problems.

Indeed, I would point out that while there have been many predictions about the dire consequences of our budget deficit, these consequences have failed to materialize. Our critics may lack consistency in their complaints but at least they have been consistently wrong.

The deficit has not prevented our recovery. It hasn't caused inflation to rise. In fact, if Congress adopts our downpayment program, and if we all follow through in coming years, that problem will recede also.

I've been in the Treasury Department now three and a half years. I've heard one constant refrain in this job. The United States is always wrong -- for different reasons depending to whom you listen -- but always wrong.

Yet results speak for themselves. Our policies are now bringing and will continue to bring results drawing the rest of the world into economic recovery.

What we are witnessing is merely a time-lag. The recovery overseas couldn't occur without our own economy turning up first. It has, so now others are recovering and the process will accelerate.

Graduates, you are entering an American economy which is far different from the one in 1974. I am sure Herbert Hoover was only kidding when he said, "Blessed are the young for they shall inherit the national debt." The United States has been willing to forego short term expediency and face up to the difficult choices necessary for long term stability.

It's not a bad beginning. There's more to do. There always will be. But we have reversed the course. Whatever I may have said in 1974, I had some private worries. During the 1974-1975 recession, the industrial world never saw aggregate inflation rates fall below eight percent. But at the start of the current recovery, inflation has receded into the 5.5 percent range. This important difference is reflected dramatically in the fact that, for the first time in years, the U.S. economy came out of a recession with a lower rate of inflation than it had when emerging from the previous recession. For most of the postwar period, the inflation rate ratcheted upwards. That spiral at last has been broken.

I envy you in many ways. One reason is your future. You will now get the chance to perform, to stumble, to succeed, and then to pass your inheritance on to the next generation. As you do, keep in mind that you are Americans, and I don't mean just graduates of this alma mater but unique citizens of a free and open nation. I spoke earlier of our foreign critics. But no one has ever criticized us as much as ourselves. And, that's healthy.

We set up standards in this country we sometimes find difficult to live by. We can drive our businesses to distraction with rules and regulations. The FDA, the Clean Air Act, the SEC, the FTC. What other nation burdens itself with such things. Don't get me wrong. I'm not saying they're bad, but merely a testament to our integrity. And yet in spite of tougher standards, Americans compete. And Americans win. Eight percent growth. Four percent inflation. That's a hard act to beat. Except maybe by you.

Graduates, you are about to be set loose -- not just from my speech -- but into a world where I hope you dedicate yourselves to good citizenship: that you trust in God, that you defend your honor and your country, and that you preserve and persevere in the gift of freedom.

Thank you.

FOR RELEASE UPON DELIVERY
EXPECTED AT 8:30 A.M.

Remarks by
Donald T. Regan
Secretary of the Treasury
Before the
National Conference of State Legislatures
May 11, 1984

Good morning. It's a pleasure to be here.

The history of our American federalism is, in one aspect, a long steady slide towards centralization at the federal level. And, as state legislators, I'm certain you've been mindful of this ever-increasing intrusion by the national government.

It seems that for a half century or more all the power and tax dollars that flowed to Washington resulted only in a government that is bigger but less responsive; costlier but less effective.

One commitment this Administration made was to reverse the process of centralization. We want to return authority, responsibility and autonomy to the states and localities wherever possible.

Instead of a system that treats our states and cities like weak links, we want a return to the true spirit of federalism -- a structure predicated on the belief that all levels of government are capable partners.

We recognize, however, that this partnership implies certain bonds that can't be broken, and one of the strongest bonds lies in our economies. Here in Washington, we know full well that everything we do profoundly affects you and your constituents.

Since the Korean War the United States has gone through six recessions, most recently in 1981 and '82. We came out in late 1982. In the first year of recovery we had impressive growth, consistent with previous recoveries. But there was a fundamental difference this time. A difference that bodes well for breaking the boom-bust cycle, and bodes well for you.

For the first time in six recoveries, we are experiencing growth with lower general inflation levels than when we entered recession. And for the first time we came out of a downturn without an accompanying ratcheting up of inflation.

In general terms, we've had some of the best inflation performance in years. The 3.8 percent increase in consumer prices last year was the lowest inflation rate since 1972; in fact, if one excludes years in which there were wage and price controls, it was the best inflation figure since 1967.

The increase in producer prices, at only 0.6 percent, was the lowest in two decades, while rising food prices and cyclical pressures are pushing consumer prices up marginally, probably to the 5 percent range this year. The latest figures in the Producer Price Index issued this morning show no rise for April. A clear indication that inflation is staying down.

Surveying all the data available to me, I am convinced we can look forward confidently to years of healthy economic performance if we maintain non-inflationary, growth policies.

In the first quarter of this year real GNP growth picked up to an 8.3 percent annual rate. Now, I'd rather be growing than not growing, but let me take a moment here to quell any concern about growing too rapidly.

The very strong first quarter growth, along with a slight speedup in inflation, does not mean that the economy is overheating. The somewhat larger price increases early this year reflected mainly the impact of severe weather conditions on food and energy.

Furthermore, the economy was clearly slowing at the end of the first quarter; as shown by more moderate employment gains, a decline in the factory work week, a softening of retail sales, and a leveling off in industrial production. Moreover our leading indicators are signaling a slowdown to a more sustainable pace.

As far as interest rates are concerned, I don't like to see increases. They hurt too many people, industries and indeed, nations. And I'm disappointed by the prime rate increase this week. Our growth rate is moderating and our inflation remains low. There is no sign of a widespread surge in inflationary pressures.

We have continually asked the Federal Reserve Board to supply enough money to accommodate non-inflationary growth. We hope they will do so.

All in all the train has been placed on the right track. Now, together, we must ensure that it continues to move along. And our biggest obstacle to that is government overspending. It is the one impediment that threatens derailment and disaster.

I'm sure many of you know that we have had 45 Federal deficits in the past 53 years, and uninterrupted deficits in the past 15 years. But I'll bet few of you were aware of the truly stunning fact that since 1931, when this string of deficits began, Congress has raised taxes more than 190 times.

Outlays (including off-budget spending) were 19.8 percent of GNP during the 10-year period of 1964-1974. During the five-year period ending in 1979 outlays averaged 22.1 percent of GNP. Since 1979 the upward trend has continued unabated: 22.9 percent in 1980, 23.5 percent in 1981, 24.4 percent in 1982, and more than 25 percent in 1983, the fiscal year ended last September.

Contrast what has occurred in outlays with the revenue side of the ledger. It has historically been in the 18 to 20 percent range of GNP. It remains in the upper portion of that range notwithstanding the tax cut of 1981.

Now, we could move towards a balanced budget by adjusting revenues. We could raise taxes. The budget would be balanced. But at what cost? Would we have a healthy, growing economy? Of course not.

With a budget balanced in that manner so much of the nation's resources would be flowing to Washington that the prospects for capital expansion and growth would be nil.

We simply can't keep taxing our economy. And we simply can't keep trying to balance our budget on the backs of already burdened taxpayers.

Let's be clear on this. The true enemy of capital formation and economic expansion is government spending. Raising taxes so that revenues can rise to meet bloated expenditures is not solving the problem. It simply changes the method by which financial resources are siphoned from the public.

And this is not a mere inconvenience. It's much more serious. If we destroy incentives for expansion our economy will falter and we'll be right back in the same cycle: recession, unemployment, more red ink and more inflation.

In the long run, the only meaningful solution to the deficit problem is to bring spending down in line with revenues. I realize that's a solution which involves making some hard choices and saying no. But, believe me, it is the only long-run solution that is worth pursuing.

I hope that we are seeing the beginning of that solution in the deficit-reduction proposals currently being debated in Congress. I know the Congress and the Administration are sincere in their immediate efforts to get a "downpayment" on the deficit. But we can't stop there. We must continue to bring our spending down in the years ahead.

Can we do it? Can we eliminate the current deficit? And after that can we keep spending in line with revenues? I won't try to fool anyone by saying that this would be easy. There are spending pressures throughout our political system. How do we handle these pressures?

Well, I think we can look to the states as budgetary laboratories. State fiscal health is improving rapidly with the strong economic recovery. The outlook is very favorable and will remain bright throughout the near term. There are a number of reasons for the improved conditions of states, but not to be overlooked is the remarkable record of spending restraint.

Government expenditures below the federal level have not increased on a per-capita basis since 1978. The level in 1983 was actually 7 percent below 1978 levels.

The Federal government has much that it can learn from the fiscal practices of State governments, especially at this time when the Federal government is experiencing so much difficulty in balancing its budget.

Most states are required by their constitutions to ensure that the actual operating budget -- not merely the enacted one -- be balanced.

Where states run deficits, they are temporary. In some states the balanced budget requirement applies only at the end of a biennial budget period, so that there may be a budget deficit at the midpoint.

Some states require that a balanced budget be adopted, but are not forced to make adjustment if an unexpected deficit arises. Most states, however, require that the operating budget be balanced at the end of the fiscal year.

Among other reasons, states cannot run continuing deficits because they have statutory or constitutional limits on borrowing. Typically, operating deficits cannot be funded with borrowing because long-term borrowing is restricted to capital spending and even then it often requires voter approval.

Another constraint on overspending is an authority called the line-item veto. This audience is familiar with that. Forty-three of your governors are authorized to disallow portions of appropriation bills, rather than accepting or rejecting in full proposed spending legislation.

Unfortunately, this authority does not exist at the Federal level. In the federal fiscal system Congress passes appropriations bills and forwards them for signature to the President. The President is then faced with a simple choice. He can either sign the bill in its entirety or he can veto the bill in its entirety. No options in between.

And there are many instances where a single appropriations bill will contain spending vital to the nation and at the same time spending that is excessive and, in the judgment of the President, contrary to the interests of the nation. The President's choice is then an agonizing one -- accept both or reject both.

You might be interested in this letter written by a former President: "I give my signature to many bills with which my judgment is at variance. For I must approve all parts of the bill or reject it in toto." That was George Washington in 1793. And every President since has been similarly complaining.

If restraints like the line-item veto or a balanced budget requirement serve states well, they would serve the federal government well. If 43 governors, countless mayors and chief executives throughout private industry find line-item vetos effective in stopping wasteful and extravagant spending, so, too, would the President of the United States.

I wouldn't care to live under any form of government other than our democratic Republic. But there is no denying that our system brings together 535 members of Congress, each of whom understandably has unique political pressures and responsibilities.

The President is one of the only two elected officials who have as their constituency the entire nation. And giving the President more authority in appropriation matters can only benefit the nation as a whole.

The control of federal spending, in a fair and responsible manner, is of vital importance to every American, every town, every county and each of your states. Given the tools, it can be done.

For economic health throughout every level of government, the federal government must be healthy. If we restrain our spending, we can assure our economic health.

Now, before taking a few questions, let me speak briefly on a topic of current interest to you.

The Working Group on Worldwide Unitary Taxation reached general agreement this month that includes a "water's edge" limitation on this method of state taxation.

I am hopeful that the completed recommendation will go to President Reagan prior to his Summit Meeting in early June.

This agreement is, of course, contingent on the Federal government's providing increased assistance to the states to help them assure full disclosure and accountability -- something to which I have readily agreed.

It also leaves open for decision on a state-by-state basis the taxation of dividends from foreign sources and the taxation of U.S. companies with primarily foreign operations, but with a proviso that state taxation should not discriminate against domestic firms in competition with foreign companies.

Since this agreement on a water's edge principle applies to both U.S. and foreign-based companies, it answers the concerns of our foreign trading partners.

Obviously, the Working Group's recommendation will be up to the states to legislate. In some quarters this is being interpreted as evidence that little progress has been achieved. I disagree. We did not intend to -- indeed, could not -- write state tax legislation.

But we did agree in principle on an issue that has divided states and much of business for two decades. I was particularly pleased by the statements in support of the agreement by Governors Dukemejian, Thompson and Matheson. As well as John Tucker, David Nething and, Lee Moffitt from the legislative side. This and other signs of action at the state level suggests at long last that movement has begun. In the long run this will benefit us all.

Thank you.

International Investment Policy

January 1984

Background: A liberal market-oriented international investment system can best be fostered by widespread adherence to the principle of national treatment for foreign investors and by protection of investors' financial, physical, and intellectual property under international law.

The national treatment principle means that foreign investors should be accorded treatment no less favorable than that accorded in like situations to domestic enterprises, consistent with national security and related interests. The US welcomes foreign investment in this country and extends to such investment the same nondiscriminatory treatment we seek for US investors abroad. An indication of the favorable environment for investment here is that foreign direct investment surpassed the \$100 billion level in 1982. For official US accounts, foreign investment is defined as direct when an organization or person holds 10% or more of the voting stock of a US-incorporated firm.

Protection of investors' property is another necessary condition to maintaining a properly functioning international investment system. Under international law, no investment should be expropriated unless it is done for a public purpose, is accomplished under due process of law, is nondiscriminatory, does not violate any previous contractual arrangements, and is accompanied by prompt, adequate, and effective compensation. Intellectual property also requires protection: international recognition of patents, trademarks, copyrights, and other proprietary rights to technology are necessary to reward innovation and foster investment flows.

Reagan Administration policy: On September 9, 1983, President Reagan released his Administration's Statement on International Investment Policy. The statement recognizes the vital contribution of international direct investment flows to economic growth and development and the benefit to home and host country alike. A central feature of our policy is that direct investment flows should be determined by market forces. Freely functioning markets ensure the most efficient and productive allocation of international investment capital. In this context, the US opposes measures by other governments that interfere with investment flows.

US measures: The US is actively working to promote a market-oriented international investment system, to strengthen adherence to nondiscriminatory treatment standards, and to reduce foreign governments' actions that impede or distort investment flows. An important benchmark in this effort is the 1976 declaration and related decisions of the Organization for Economic Cooperation and Development (OECD), which consist of understandings on national treatment, incentives and disincentives, and guidelines for multinational

enterprises. The US seeks to strengthen these understandings and the related OECD agreement that liberalizes capital flows and to encourage broader support for these principles by other countries. The US has also undertaken a bilateral investment treaty program to facilitate investment with developing countries by establishing, on a bilateral basis, a framework of agreed standards in such key areas as treatment of investment, expropriation and compensation, transfers of funds, and dispute settlement. The US has negotiated, or is in the process of negotiating, such treaties with a number of countries in Africa, Latin America, and Asia. US embassies abroad provide services and assistance to American investors and help ensure that their investments are treated in accordance with international law.

The US is working with OECD countries, with members of the General Agreement on Tariffs and Trade (GATT), and with individual countries to minimize use of trade-related performance requirements and related measures imposed on foreign investors. These include local content and export requirements and similar measures which distort trade and investment flows to the detriment of the US and global economy. Barriers to flows of corporate data across borders represent a relatively new problem of particular significance to US information processing and service industries operating abroad. The US has begun a consultative process within the OECD to minimize such barriers. Finally, in various multilateral forums, the US is working to ensure high international standards of protection for intellectual property. These include the renegotiation of the Paris Convention for the Protection of Industrial Property and the UN-sponsored negotiations on a Code of Conduct for the Transfer of Technology.

DEBT STRATEGY

Background. Since the end of 1982, the USG has followed a five-point strategy for dealing with the debt problems of developing countries and this strategy was specifically endorsed at the Williamsburg Summit. The strategy has encouraged effective adjustment efforts in many debtor countries and has succeeded in preventing any serious disruption in the international trade, finance and monetary systems.

The five points are: (1) economic adjustment by the debtor countries; (2) economic recovery in the industrial countries; (3) continued commercial bank lending; (4) bridge financing from central banks and governments; and (5) adequate resources for the IMF. This strategy balances the often competing interests of debtor countries, industrial-country governments, commercial banks and international institutions in a realistic fashion. In recent months, we have heard increasing concern that the time has come to switch gears to a more institutionalized approach emphasizing the need to "manage" debt problems over the medium term.

The U.S. believes that the current strategy adequately addresses the media-term aspects of the debt problem by its emphasis on adjustment, growth and trade. A more institutionalized strategy implies a departure from the case-by-case approach and risks an inequitable sharing of the burdens of adjustment, financing and debt relief.

Progress Since Williamsburg. Progress on each point of the strategy includes the following:

- Countries as different as Mexico and Sudan have recognized the necessity of correcting unsustainable macroeconomic policies, and are implementing comprehensive adjustment programs.
- Non-inflationary economic recovery is well underway in the industrial world. In 1984, by absorbing non-oil LDC exports at a more rapid rate, this recovery will make possible the first increase in import volumes in these countries since 1981.
- Commercial banks are increasing their exposure in developing countries as a whole, and are cooperating actively in helping specific countries that have IMF-supported stabilization programs.
- Exceptional financing from central banks and governments has continued to be available, where justified, in the form of bridge loans and debt relief.
- The resources of the IMF have been augmented by increasing quotas and expanding the General Agreements to Borrow.

The exceptional effort made this past March by Argentina, four other Latin American countries and Argentina's creditors is testimony to the adaptability of the strategy.

Objectives for London. The U.S. objective is to re-affirm the validity of the five-point debt strategy. At the same time, we will urge our Summit partners to continue to seek improvements in the implementation of the strategy as applied to specific debtor countries.

THE DOLLAR IN THE EXCHANGE MARKET

Background: The dollar has been appreciating for nearly four years. But while continuing to show strength for the past two months, the dollar remains below its early January 1984 highs against most major foreign currencies.

U.S. Position: The dollar's strength reflects the sharp improvement in U.S. economic performance compared with that in other major countries -- especially on inflation and profitability of business investment -- and "safe-haven" factors. While, at times, demand for dollars has appeared to be stimulated also by interest rate considerations, such periods have been relatively brief; at other times the dollar and interest rates have moved in opposite directions. In large part, the strength of the dollar is an indication of the success of our policies and should be an example to others. The strong dollar has stimulated U.S. imports, benefitting other countries.

It is possible that the dollar will decline further this year. Some of the factors which have contributed to dollar appreciation are changing. The tremendous improvement in relative U.S. inflation performance has largely run its course. Economic performance is improving in other major countries, and confidence in other major currencies, the yen in particular, has increased. In addition, the widening U.S. current account deficit may weaken the dollar. Successful efforts to cut the budget deficit would benefit the U.S. economy and thereby could be a source of dollar strength.

While the dollar may decline further, we do not believe a substantial depreciation or a "dollar crisis" is realistic, because we intend to maintain sound non-inflationary policies to make the U.S. economy strong and dynamic.

INTEREST RATES AND BUDGET DEFICITS

Background: The controversy about the effect on interest rates of the large projected Federal deficits is traceable in part to a debate over the role of tax increases in cutting the deficit.

At the Williamsburg Summit, the finance ministers from the major industrial nations asked the United States to reduce its deficits even if such reduction required a major tax increase. The finance ministers asserted that the large U.S. deficits caused high U.S. real interest rates, which in turn caused investment funds to flow from their countries to the United States. They argued that if the United States raised taxes and lowered its deficits, its real interest rates would decline, the flow of investment funds to the United States from these other industrial countries would slow, and their economies would be better off.

U.S. Position: It is important to remember our goal of increasing economic growth through private investment. Allocating a larger share of GNP to government spending reduces resources available for private investment, and reduces the incentive to invest. A tax rate increase which reduces the profitability of investment in plant and equipment could only cause interest rates to tumble by collapsing the demand for investment funds. Our goal is to raise economic growth by making resources available for investment and by reducing interest rates to promote investment, not to cut investment to reduce interest rates. Consequently, we insist on reducing the deficit by curtailing government outlays, not by curtailing investment.

As documented in a recent Treasury study, there is no convincing evidence that lower Federal deficits will bring lower real interest rates. Theoretical analysis of the macroeconomic effect of deficits on interest rates yields ambiguous results. The outcome depends importantly on debatable assumptions about saving, various other types of economic behavior in the private sector, and about the specifics of Federal expenditure, tax, and monetary policy. A review of empirical studies by leading economists reveals no consensus regarding the relationship between real interest rates and deficits. The results of Treasury's own econometric studies indicate that large deficits had virtually no relationship with high interest rates between 1965 and 1983.

Nevertheless, the Administration recognizes that persistently large deficits can raise the Federal debt to a level (relative to GNP) where it impinges significantly on credit available to finance private investment. But with Federal budget outlays running at about 23-24 percent of GNP and tax revenues at about 19 percent of GNP, the President takes the position, indicated in the deficit "downpayment" proposal he submitted to Congress, that the deficit reductions should be achieved mainly by slowing the growth of outlays. In his analysis, spending reductions are much more effective than tax increases in promoting real growth and reducing interest rates, and monetary policy -- by keeping inflation low -- also has an important role to play.

Background: The combined annual export-import trade of the US has grown from \$35 billion in 1960 to \$467 billion in 1982. We were then and are now the world's largest trading nation. Our economic health and that of other major countries are dependent on trade and the maintenance of an open and fair trading system. Millions of American jobs are export related. Overseas customers buy 24% of our total agricultural production, 25% of our construction and mining machinery, and 20% of our aircraft production. The US now trades a far larger share of its gross national product (GNP) than was the case in the past; in 1982, US two-way trade in goods and services accounted for 20% of our GNP, compared to 11% in 1970 and 9% in 1960. More trade means more jobs, lower consumer prices, and higher incomes.

Trade liberalization: For more than 30 years, the US has been, and remains, a leading proponent of an open international trading system. At the May 1983 Williamsburg summit, the US and the six other summit participants pledged themselves to halt protectionism and roll back barriers to trade. Since then, they have been working to carry out their commitments. One of the measures being pursued is the possible acceleration of previously negotiated tariff cuts. In addition, the US is working with other countries to achieve a new multilateral negotiating round in the General Agreement on Tariffs and Trade (GATT) that would focus on the liberalization of trade with and among developing countries (LDCs), as well as trade in areas such as agriculture, high technology products, and services.

Agricultural trade: The US is the world's largest exporter of farm products, accounting for nearly half of the world's exports of wheat and feedgrains. In 1982, US farm exports were valued at \$36.6 billion, a decline from 1981 exports of \$43.3 billion but still about six times the value exported in 1970. Because of our comparative advantage in agriculture, we have much to gain by liberalizing world agricultural trade.

Trade in services: The role of services, including banking, insurance, and transportation, in the US economy and in our international trade has expanded dramatically in the last 25 years. When government is included, over 70% of US employment falls within the services sector. Recent estimates of world trade in services exceed \$350 billion annually, and the US has consistently ranked as one of the largest exporters. There are few international agreements regulating the trade of services, and the US has suggested that the GATT address this area in the near future.

Benefits of imports: In 1982, the US imported \$255 billion worth of goods. We import nearly one-fifth of the raw materials we consume, including many items such as chromium, cobalt, and industrial diamonds

that we do not produce. Imports also aid the US economy by stimulating innovation and efficiency within US industry and by giving consumers a wider choice of goods at lower prices.

Import relief and trade adjustment assistance: While committed to an open international trading system, we cannot ignore domestic industries threatened by import competition. Thus:

- If US producers are harmed through unfair competition, US law and the GATT permit the government to take remedial action. Antidumping duties may be imposed if foreign countries are selling goods more cheaply here than in their home markets or are selling at prices lower than production costs; countervailing duties may be used to offset foreign government subsidies.
- If US producers are harmed by imports in the absence of unfair practices, US law and GATT permit action to restrain imports on a temporary basis. Under Title II of the Trade Act of 1974, the US Government also may provide income to those affected during the adjustment period and furnish other types of aid, including money for retraining and relocation programs for workers, technical assistance to industry, and economic planning grants to communities.

GATT: The General Agreement on Tariffs and Trade is a treaty adhered to by 90 countries that together account for more than four-fifths of world trade. It is the principal international body concerned with international trade relations and with negotiating the reduction of trade barriers. It is thus both a code of rules and a forum in which countries can discuss their trade problems and negotiate to enlarge world trading opportunities. The nine-fold growth in the volume of international trade since World War II has provided continuing evidence of GATT's success in this double role.

Trade and LDCs: Trade with the LDCs is of increasing importance to the US, amounting to about 40% of our exports. In 1982, the US exported \$83 billion to LDCs, while importing \$99 billion. Increased trade is a key external factor in promoting the economic growth of the less developed countries. For most LDCs, trade rather than official aid is the main source of the foreign exchange they need to pay for imports and to service their international debt. Efforts to address the debt issue which do not include attention to the trade linkage are unrealistic.

We and other developed countries offer a generalized system of preferences (GSP) for LDCs to encourage export diversification. The US GSP allows specific LDC products--so long as they do not exceed certain limits--to enter the US duty free. In 1982, \$8.4 billion worth of LDC exports entered the US under this program.

Generalized System of Preferences

January 1984

Background: Discussions on the concept of a system of tariff preferences for developing countries began at the first UN Conference on Trade and Development (UNCTAD) in 1964. By 1970 agreement was reached in UNCTAD on a generalized system of preferences (GSP), and authority for tariff preferences under the General Agreement on Tariffs and Trade (GATT) was obtained in 1971. In 1976 the US became the 19th developed market-economy country to implement a national GSP program. By eliminating US import duties on designated products, GSP is designed to make developing country products more competitive in our market. In 1982, \$8.4 billion worth of dutiable imports from developing countries entered the US duty free under GSP. While this represents only a little more than 3% of total US imports, it accounts for 13% of dutiable imports from those developing countries eligible for GSP.

Importance to US: GSP has economic and political importance in US relations with the developing countries. By increasing export opportunities, GSP helps to stimulate industrialization, employment, and economic growth. This also benefits the US, as the additional foreign exchange earnings allow the developing countries to buy more US exports and to repay international debts. Lower-priced imports benefit US consumers as well. Politically, GSP has become a symbol of the US commitment to global economic development and a measure of how the US shares with the other developed countries the costs of promoting development.

Terms of eligibility: The President has designated 114 countries and 26 dependent territories as eligible suppliers under GSP. The President cannot designate as beneficiaries:

- Communist countries that do not receive most-favored-nation tariff treatment and are not members of the International Monetary Fund and GATT;
- Members of OPEC or other countries raising the price of vital commodities to unreasonable levels or withholding supplies of such commodities from trade;
- Countries granting reverse preferences to other developed countries, resulting in significant adverse effect on US commerce;
- Countries that have nationalized property of US citizens without compensation, negotiation, or arbitration;
- Countries that do not act to prevent illegal drugs from their country from entering the US;
- Countries that refuse to recognize as binding or fail to enforce arbitral awards in favor of US citizens or corporations made by appointed arbitrators or permanent arbitral bodies; and
- Countries that aid, abet, or grant sanctuary to international terrorists.

Product coverage: Nearly 3,000 tariff categories are eligible for duty-free treatment. Included are selected agricultural items, most wood and paper products, certain chemicals, and a broad range of manufactured and semimanufactured articles. Several groups of products were excluded by law to avoid negative impact on domestic industries. Ineligible products include textile and apparel articles, watches, certain kinds of footwear, and import-sensitive electronic, steel, and glass products.

Competitive need limits: In order to give some competitive advantage to countries that are relatively new and small suppliers of a particular product, the law specifies two automatic limits on GSP product benefits. The President must suspend GSP eligibility on imports of a specific product from a beneficiary if, during one calendar year, the beneficiary supplies over 50% of total US imports of that product or US imports of that product from the beneficiary exceed a certain dollar figure (\$53.3 million in 1982). Thus, imports that already are highly competitive in the US market lose the extra benefit of GSP and leave room for GSP imports from newer suppliers. The 50% limit does not apply to low trade items (in 1982, any product where total US imports were less than \$1.3 million).

In addition to these competitive need limits, other safeguards exist to protect US manufacturers, agricultural producers, and workers in import-sensitive industries. Petitions to add or remove products from GSP are reviewed carefully each year. The President's decisions concerning changes in product eligibility take into account any potentially adverse impact on US industries.

Renewal legislation: To continue GSP past its January 3, 1985 expiration date established in the Trade Act of 1974, the Reagan Administration proposed to the Congress in August 1983 a 10-year renewal package. The bill addresses the issues of product graduation and trade liberalization by giving the President authority to adjust competitive need limits. Such adjustments would depend on a beneficiary country's level of economic development, its competitiveness in the specific product and on US interests, especially the market access conditions for US exports in the beneficiary country. A provision for totally eliminating competitive need limits for products from the least developed countries is also included. The other major preference givers, the European Community and Japan, already have extended their GSP programs for a second decade.

NEW TRADE ROUND

Background: Last year at Williamsburg, members agreed that strengthening the multilateral trading system is essential to support the economic recovery and sustain growth. Recovery in Summit countries has been uneven, however, prompting calls for protectionist actions that are louder than in many years. This has made it increasingly difficult for countries to reverse protectionist trends. The United States believes that the time has come to begin preparations for a substantial liberalization of world trade. New multilateral negotiations are needed to consolidate improvements towards world wide economic recovery; reconfirm our commitment to resist protectionism; promote greater interest in liberalizing trade relations, particularly among developing countries; and lead to further trade liberalizing actions.

Progress Since Williamsburg: Some progress was made towards further trade liberalization during the past year. The main activity was identifying concrete steps to implement the Williamsburg Summit commitment to halt protectionism and dismantle trade barriers. Summit and other developed countries have agreed to jointly accelerate tariff reductions agreed to in the Tokyo Round, provided administrative or legislative approval is granted. In a similar vein, they have agreed jointly to seek to reduce barriers to imports from the least developed countries.

At the same time, the major trading countries continued or increased certain restrictive measures. These actions, and pressures for additional protection, only reinforce the need for further progress toward more open markets, further trade liberalization and greater competition.

U.S. Position: Early last fall the United States floated the idea that countries should begin preparations for a new round of trade negotiations that builds on the current work programs of the Organization for Economic Cooperation and Development (OECD) and the General Agreement on Tariffs and Trade (GATT). These work programs have identified a number of issues that might be included in a new round. We must develop new disciplines governing subsidies, particularly in the agriculture sector, as well as an improved safeguards mechanism. We must seek ways to bring developing countries into the trading system. We also need to address issues of adjustment faced by most developed countries and seek remedies for these problems. We need to increase international discipline in trade in services, high technology and trade-related investment issues.

There is broad agreement among developed countries on the need for a new round. Efforts are underway to build a similar consensus among developing countries and to consolidate and complement other improvements in the world trading system.

Statement By
The Honorable William E. Brock
United States Trade Representative
Before The
Senate Finance Committee
On The Trade Deficit

March 23, 1984

I am pleased to be with you today to discuss the U.S. foreign trade deficit and the role of trade policy in dealing with this problem.

As we are all aware, our merchandise trade balance has deteriorated significantly since the beginning of the current recovery. I will touch upon several factors underlying our deficits in my testimony today. These will include,

- * our rapid and strong economic recovery,
- * the international debt crisis which has depressed economic expansion in a number of advanced developing countries and
- * the high international value of the dollar.

I will also discuss what I believe is an erroneous impression created by our rising trade deficit: namely that the deficit is the result of a broad-based deterioration in the fundamental competitiveness of U.S. industry. I will conclude by discussing the role of trade policy in dealing with the deficit problem: what trade policy can do, what it cannot do and what I believe is the best course to follow under the current circumstances.

Before beginning my analysis, let me give you some figures that illustrate the magnitude of the deficit problems we are facing. In dollar terms, the deficit has grown from \$40 billion in 1981 to \$69 billion last year. Our own forecast is that the deficit may exceed \$100 billion this year.

Within this overall deficit much attention has been focused on our large bilateral deficits with Canada and Japan. The deterioration of our trade balance, however, has actually been worse in other areas of the world. From 1981 to 1983 our trade balance deteriorated by \$4 billion with Japan and \$7 billion with Canada. With Western Europe our balance declined by \$11 billion and with the non-OPEC developing countries by nearly \$23 billion. Only a \$20 billion improvement in our balance with OPEC due to moderating oil prices offset deterioration elsewhere.

The deterioration in our trade has been concentrated in the manufacturing sector. Our surplus in agriculture slipped only moderately, from \$21-1/2 billion in 1982 to \$20 billion

in 1983. Our agricultural exports have, however, fallen by more than \$7 billion since 1981. Our petroleum imports dropped by \$8 billion last year so that our deficit for all raw and semi-manufactured materials including petroleum actually declined from \$49 billion in 1982 to \$46-1/2 billion in 1983. However, in the highly competitive and price-sensitive area of manufactures, which accounts for roughly two-thirds of our total trade, the U.S. balance shifted from a small surplus of \$4 billion in 1982 to a deficit of \$31 billion in 1983.

U.S. firms and workers especially in the traded manufactures sector have felt increased competition as our overall trade position has weakened. The volume of our manufactured exports has declined by nearly a quarter in the last three years while manufactured imports have risen by 23 percent. Our strong domestic recovery has provided some relief to U.S. producers facing international competition. Nevertheless, the reduced price competitiveness of U.S. exports in world markets and rapid increases in competitive imports have compounded the pressures on vulnerable sectors of the U.S. economy, especially in industries like autos, steel, textiles and footwear. And, domestic firms and workers under strong import competition have reacted by greatly stepping up calls for import relief.

Even when we consider U.S. trade more broadly to include services, the U.S. trade picture is one of a deteriorating balance. For over a decade our increasing surpluses in services trade have tended to offset merchandise trade deficits. Frequently when merchandise trade alone has been in deficit we have shown a small surplus in total trade in goods and services. In 1982 the balance on goods and services showed a deficit of \$3 billion -- a small amount in comparison to over \$700 billion in total export and import transactions. In 1983 the goods and services balance slipped to a deficit of \$32 billion. A strong dollar and poor economic performance abroad contributed to a moderate decline in our services surpluses. The surplus on private service industry trade, excluding earnings on foreign investment, fell from \$7-1/2 billion in 1982 to just over \$6 billion in 1983. The surplus on foreign investment earnings likewise declined somewhat from \$41-1/2 billion to \$36-1/2 billion.

Many are legitimately concerned today about the impact of the trade deficit on our economy and problems such as imbalances in world trade pose for our ability to maintain and expand the open world trade system. To develop effective methods for dealing with the trade problems which beset us requires some understanding of the causes of deficits and how we have arrived at this unprecedented situation.

The oil crisis of 1979/80 and the inflationary spiral which it aggravated, resulted in several years of world-wide recession. As a result, world trade declined by 1 percent in 1981, dropped

another 6 percent in 1982, and grew only 1 percent in 1983. The deterioration of our trade position is in part attributable to an earlier and stronger recovery here in the United States than abroad. This is a normal circumstance in a world recovery as the economic leader draws imports from the rest of the world before demand for its exports rises. As the rest of the world experiences a stronger recovery, it will begin to boost our exports and improve our trade position. The somewhat weak outlook for economic expansion abroad in 1984 and even in 1985, however, could slow the improvement of our trade position. This is particularly true with respect to Europe where economic rigidities, subsidies and excessive economic interference by governments have sapped the dynamism of the continent. This is also true in many developing countries suffering under the burden of unprecedented foreign indebtedness.

Stronger growth abroad would help improve our trade balance and reduce current trade tensions. Throughout most of the post-war period, world trade was an engine of growth, expanding faster than world GNP and therefore stimulating world-wide economic expansion. Although there is little we can directly do to affect the internal policies of foreign nations which reduce their economic performance, we can pursue cooperative efforts to get the trade-and-growth engine of the world economy functioning again. One of the most important challenges we face in the area of trade policy is, in fact, to start world trade growing once more.

There is wide recognition that international trade, investment and monetary policies need to be focused on the expansion of trade. In the current economic environment there is a particularly close relationship between trade and finance. No where is this clearer than in the case of the high debt LDCs.

North-south trade grew faster than any other area of trade in the 1970s, providing a major stimulus to economic growth worldwide. During the 1970s, the LDC market for U.S. exports rose substantially. Their share of our total exports rose from 29 percent in 1972 to 35 percent in 1979. The growth was even stronger in manufactures where their share of U.S. exports rose from 28 percent to 38 percent. The strong export performance of U.S.-built machinery and other capital goods in the last decade was in part made possible by the strong markets in LDCs where such equipment is required for economic development purposes.

Rising oil prices, exploding interest rates and deepening world recession after 1979, however, left a number of LDCs with serious debt problems. The external debt of these countries reached \$664 billion in 1983, up \$52 billion from the previous year. Because of serious problems in servicing such massive debt, many developing countries have had to cut back imports by as much as 20 to 40 percent.

The debt situation has caused particular problems for our own exports. Well over one-third of the LDC debt and some of the severest problems in debt servicing are found in Latin America where the United States has particularly strong trading interests. The efforts of these countries to trim their imports have been strongly felt by U.S. exporters. From 1981 to 1983 our trade balance with the eight high debt Latin American countries deteriorated by a staggering \$20 billion from a surplus of \$5.8 billion to a deficit of \$14.5 billion. This accounts for over two-thirds of the deterioration in our total trade deficit with the world in these two years.

Supporting the LDCs in adjusting to their heavy debt burden through financial assistance and open markets is not only in their interest but our own as well. It is crucial to a strong recovery of our exports. Let us not make the mistake we made some 53 years ago when another international financial and economic crisis led to the Smoot Hawley tariff. One of the few who spoke out against this ill-conceived act which had such disastrous consequences was a member of the Senate, a Democrat, I might add. Let me quote him.

"America controls about 70% of the world's gold. She is a creditor in enormous sums for many of the European countries, and is wanting to collect her money, while at the same time she is building up a tariff wall so prohibitive that other countries cannot send their products to America, and thus are prevented from paying the debts they rightfully and admittedly owe. These foreign countries are not to blame. They do not want a tariff war with us. They want to buy our goods, which we sell to achieve prosperity at home. But they have no choice. There is no way in which they can buy our goods unless we permit them to sell us something."

"In comparison with the same months a year ago our export business has fallen off at the rate of \$2 billion per year, and the difference between this country's satisfactory and unsatisfactory business condition is in its export trade."

I have taken a personal interest in that statement because, as it turns out, it was spoken by William E. Brock, Senator from Tennessee, my grandfather.

In order to once again expand their imports, the high-debt LDCs will have to increase their foreign exchange resources through higher exports, foreign investment, multilateral assistance and better access to trade financing. Secretary Regan and I have worked steadily to develop better coordination between the trade and finance officials worldwide as the linkage between

the indebtedness of these countries and their trade practices has grown. It has been especially important that financial and other measures taken to assist high debt LDCs support a rapid recovery of world trade. We have provided Eximbank guarantees and insurance and Commodity Credit Corporation guarantees to finance LDC trade, thus enabling them to import essential goods. The Eximbank has provided expanded packages of guarantees for both Brazil and Mexico. We have also supported the use of bridge financing, increased resources for IMF loan programs, and the reduction of barriers to foreign investment in these countries. Above all, however, the recovery of these countries depends on their ability to export which in turn depends on their ability to obtain market access in the developed countries. In this regard, the Generalized System of Preferences (GSP) program affords preferential access to LDC exports and assists them in earning the foreign exchange needed to honor their debt obligations. The extension of this critical program which is pending before this Committee represents a lifeline to many of the developing countries of the world.

The foreign exchange value of the dollar is also a key matter of concern. Since 1978, to the beginning of this year, the dollar rose 14 percent against the yen, 27 percent against the German mark and 69 percent against the French franc. In effective terms the dollar rose by 40 percent. As a result, otherwise competitive U.S. producers are being priced out of our own as well as foreign markets by a dollar that has experienced an exceptional increase in a very short period of time.

The factors determining the dollar's value are numerous and complex. It is clear, however, that the dollar's current value is being supported by substantial movements of foreign capital into U.S. markets. Foreign investors buy dollars with foreign currencies in order to invest here; this has the effect of bidding up the value of the dollar in foreign exchange markets and reducing U.S. price competitiveness in trade.

There are several considerations behind the large capital inflows supporting the dollar. We are the world's most prosperous and stable economy. And thus the dollar has become the world's hedge in periods of crisis--and there have been many. In a more geographic sense, capital in flight from politically volatile regions of the world finds safe haven in the United States. Our vigorous recovery and expansion as well as our open investment policy have also attracted foreign investors. And, the fact that real interest rates in the United States are well above those in most other countries has stimulated the inflow of short-term foreign capital in search of maximum return.

Foreign investors could decide for a number of reasons to reduce the flow of their investments to the United States which would lead to an easing of the dollar and some improvement

in trade. In fact there has been some tendency since the beginning of the year toward a depreciation of the dollar's value. Policy choices to sustain this movement are limited, however. There is nothing we can or should do to reduce the safe haven aspect of our economy, other than to pray that other nations will find the peace we so enjoy. Nor do I question the desirability of open investment policies. This leaves the problem of high real interest rates.

Our high interest rates in part result from the fact that our current national saving is inadequate to finance both Federal deficits and the private credit requirements of an expanding economy. Recent surpluses in state and local government accounts have helped limit the gap between national saving and national investment. A gap, however, still remains and is being made up in a financial sense by capital inflows from abroad. Last year net foreign investment in the United States amounted to \$35 billion, or about 7-1/2 percent of private domestic investment. Capital inflows, however, were on an increasing trend during the year, reaching an annual rate of \$58 billion by the fourth quarter or 11 percent of private domestic investment. Relatively high interest rates are a condition for attracting this foreign capital. Our financial borrowing from abroad manifests itself in a real sense by importing more goods and services than we export. We cannot have both a sustained economic expansion at home and a more competitively valued dollar for trade purposes unless we are able to substitute increased domestic savings for foreign credit.

The exact relation between the size of the Federal deficit and interest rates is subject to considerable debate; however, few would argue that government borrowing to finance increasingly large deficits reduces interest rates, or is even completely neutral with respect to rates. Reductions in future Federal deficits are essential to our long-term domestic economic health, and they are essential to any improvement in our trade account.

The unprecedented size of our trade deficit has raised questions in the minds of many about our competitiveness. While it is clear that the high value of the dollar has seriously eroded the price competitiveness of many U.S. producers, there has been a tendency to overstate the extent of our competitive problem.

U.S. competitiveness in world markets in the long term depends on the performance of our domestic economy in areas such as technical and product innovation, adoption of advanced plant and equipment, investment in education and human skills, and a healthy rate of output and productivity growth.

Our economy performed better during much of the 1970s than is often realized with real per capita income rising an average

of 2 percent a year, faster than the 1950s rate of 1.4 percent and only somewhat less rapidly than the 1960s rate of 2.6 percent. Our productivity performance, however, did falter as the staggering increase in oil prices rendered a good deal of U.S. capital equipment obsolete and as employment swelled by 20 million to accommodate the rapidly growing labor force of the 1970s. I might add that the economic problems of spiraling inflation and strained capital resources accumulated by the end of the 1970s and created a sombre outlook for the future of the economy at that time. Through incentives to capital investment like the acceleration of depreciation allowances, through reductions in regulatory burdens and taxation, and through success in bringing down inflation, the basis has been laid in the last three years for sustained non-inflationary growth and solid gains in both productivity and employment, which rose by 700,000 last month and by close to 5 million since the recession's end.

The slackening productivity growth in the 1970s may have contributed to U.S. loss of world trade market share in the last decade. The U.S. share of world manufacturers exports was 16.4 percent in 1980, down from 18.4 percent in 1970. Our share did, however, recover somewhat to 18.1 percent in 1981 and 17.3 percent in 1982.

The evidence does not suggest that we are deindustrializing. Since 1970 industrial production in the U.S. has risen by 41 percent, more than Canada's 37 percent, France's 32 percent, Italy's 23 percent, Germany's 20 percent or Britain's 12 percent, although not as rapidly as Japan's 57 percent. Even since 1980 when the dollar began to rise, the index for manufacturing production has risen 6 percent and is still rising steadily. Whatever the impact of the domestic determinants of our long-term competitiveness such as innovation, investment and productivity, they certainly have not led to U.S. deindustrialization.

The unprecedented size of our trade deficit is to a large extent the result of U.S. and world macroeconomic factors such as the strong U.S. recovery in advance of the rest of the world economy, LDC external debt and the inadequate level of U.S. net savings. I do not believe that our trade deficit reflects any broad based decline in our fundamental industrial competitiveness. This is not to say that a weakened dollar would spare every U.S. industry from structural adjustment pressures from competitive imports. To deal with such industry specific situations, however, we do have trade laws which we have used and will continue to apply. But I do not believe that the traditional industry-specific tools of trade policy are particularly appropriate or effective for substantially reducing the current deficit.

There are, of course, serious problems of market access for our exporters in foreign countries. We are vigorously seeking the reduction of barriers to our important agricultural exports

as well as to manufactured goods. In addition, the Administration has been exceptionally active in enforcing U.S. trade law to protect the interests of U.S. firms and workers when injured by unfair foreign trade practices. These efforts will continue. But we must also understand that the growing size of the U.S. trade deficit is for the most part not directly caused by either U.S. trade policy or foreign trade practices. If we are to successfully respond to the problem of the trade deficit, we must deal with its underlying causes found in the forces shaping our overall balance-of-payments position and the exceptional value of the dollar.

While there are provisions in our trade law to deal with macroeconomic aspects of our trade problems, we have to be sure that their use is not counter-productive. In fact attempts to employ trade policy to reduce the current deficit may actually backfire and worsen rather than improve our situation. Such, I believe, would be the case with respect to action under Section 122 of the Trade Act of 1974 to impose an across-the-board import surcharge. Such a surcharge would not just tend to reduce imports, it would also tend to strengthen the dollar or moderate its decline. The dollar's value is determined each day in foreign exchange markets by conditions of supply and demand. Limiting imports, also limits the supply of dollars in foreign exchange markets thus appreciating its value.

Under a flexible exchange rate the principal indication of an incipient balance-of-payments deficit is a tendency for the dollar to fall in value. Section 122 provides for the imposition of an import surcharge precisely to prevent an imminent and significant depreciation of the dollar. It makes little sense to impose a surcharge when the best hope for improvement of our trade balance is just such a moderation in the dollar's exchange value. The result of a surcharge then could be to further strengthen the dollar and reduce the ability of U.S. exporters to sell abroad. We could very well drive down both U.S. imports and exports while obtaining very little improvement in our trade balance.

What then should we do to improve the difficult situation of our foreign trade deficit?

First, I think we must face the uncomfortable fact that even though our exports are beginning to grow again, our trade deficit will increase further before it begins to improve. Even a rapid and substantial deterioration of the dollar would require 12 to 18 months to have sizeable effect on the U.S. trade balance.

Second, actions to reduce Federal spending and deficits as well as measures that increase domestic savings are highly desirable from the point of view of foreign trade. The cost

of growth should not be a high dollar; the less we need to borrow from abroad, the stronger our overall trade performance can be.

Third, we must resist demands for protection warranted only by competitive pressures from the overall deficit. Such protectionism for some sectors would be at the expense of other U.S. workers and producers. It would create economic distortions here at home reducing our ability to accomplish necessary economic adjustments to a changing world economy while contributing little to the solution of our trade problems.

Fourth, we should recognize that time will work in our favor internationally. Further recovery abroad will improve demand for our exports; the movement of our domestic economy to a sustainable long-term growth path will moderate the recent torrid growth of U.S. demand for imports.

Fifth, we must continue to strictly enforce our trade laws so that U.S. firms already suffering from strong foreign competition are not forced to face the added burden of competing against foreign governments. We must be able to ensure that Americans are not unfairly deprived of their jobs by foreign government intervention. We are aware that other nations have been critical of some of the trade actions taken by the United States. But let us all understand the distinction: there are cases when certain actions are not only acceptable, but are ethically and legally right. These actions, taken in accordance with U.S. law and international law, must not be confused with protectionism.

Lastly, we must continue to work with our trading partners to ensure the expansion and liberalization of world trade in the years ahead.

I thank you for this opportunity to present my views on the problem of the trade deficit.

Foreign Policy: Its Impact on Agricultural Trade

March 7, 1984



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by W. Allen Wallis, Under Secretary for Economic Affairs, before the Board of Directors of the United States Feed Grains Council, Houston, Texas, March 7, 1984.

It is a pleasure to be able to begin by expressing the Reagan Administration's hearty support for the work of the United States Feed Grains Council. You support the private export-marketing system, and you develop export markets. I have read the positions on public policy that you adopted 2 years ago. They are models of reason, common sense, and sound policy.

The theme of your meeting, "strategy for transition," gives me an opportunity to talk about what the Reagan Administration is doing to encourage a transition to a more competitive trading system for agricultural products.

The explosive growth in world agricultural trade during the 1970s has given way to much slower growth in demand but without a corresponding slowdown in production. Consequently, prices are soft, stocks are increasing, and governments are under pressure to "do something." Some argue that we should protect our market share through bilateral or multilateral arrangements. Others argue that we should stabilize prices. Still others advise us to hide behind high price supports and import barriers. Some say that we should resort to international markets only when we need to work off the burden of mistakes in our domestic programs. These forces are powerful. If they have their way, the transition we are in will be to government-organized and government-managed trade in agriculture. Governments would fix market shares and prices, and international trade would

become a stepchild of the world's domestic farm programs.

There is, however, another possibility—a far better possibility. We can acknowledge that we already have too much government participation in international agricultural trade. We can commit ourselves to work together toward a more market-oriented system, free of distortions, based on comparative advantage. We can permit market forces to do their work and thus achieve efficient allocation of world resources.

I want to analyze with you today the prospects for these two competing outcomes. My analysis is divided into three parts: first, a brief look at the starting point, world agricultural markets as they operate today; second, a review of the Reagan Administration's efforts to assure our farmers and exporters a fair shot at those world markets; and finally, the implications of our international programs for the domestic farm program.

World Agricultural Markets

Those of you who believe as I do in the efficiency of markets and in the magic of the price system for organizing economic behavior may be distressed by what I must say in describing the current status of international markets for agricultural products.

Consider first sugar. Only about 30% of sugar produced enters into international trade, and about 38% of that 30% is traded under long-term contracts or other closed arrangements. The other 62% of the 30%, or less than 20% of the total, must absorb the full burden of price fluctuations. The price-stabilization efforts of the International Sugar Organization—of which the United States is a member—have failed totally. In part this is because the European Economic Com-

munity maintains high support prices and heavy export subsidies, which since 1976 have transformed the European Community (EC) from a net importer of sugar to a supplier of one-third of the "residual free" market exports in 1982. In addition, U.S. sugar producers have enjoyed our own price support program, protected by tight quotas.

Consider coffee, America's favorite beverage. Coffee is regulated by an international commodity agreement participated in by the United States and 72 other countries, representing virtually the entire coffee trade, both exporters and importers. The International Coffee Organization (ICO) attempts to stabilize coffee prices through the use of export quotas. In recent years, coffee prices have been relatively stable, but the success of the ICO in stabilizing prices in the face of cyclical overproduction has resulted in stockpiles of coffee so large that they hang over the market like the sword of Damocles.

With coffee goes cream. Only about one-tenth of world dairy production is traded on international markets, and most of that consists of heavily subsidized products, such as butter and nonfat dry milk. About 85% of the trade involves export subsidies. Support for dairy production has become a very costly business for consumers and governments. Support prices in the United States and the EC are set far above domestic and international market clearing prices, and they generate mountains of stockpiled surplus, currently representing about one-quarter of a year's domestic production. It is small comfort to know that the United States refrains from dumping this surplus on the thin international market. Our participation in the international market has

been limited to foreign aid and occasional subsidized sales for demonstration effect.

The picture for grain is somewhat different, and many people point to the grain trade as an example of the free market at work. In fact, the international grain market is characterized by a few suppliers—the United States, the EC, Canada, Australia, and Argentina accounted for over 95% of exports in the 1982-83 marketing year. Many countries, including Canada and Australia, sell their grains through government marketing boards. The EC, the third largest wheat exporter, offsets high support prices with substantial export subsidies. Grain exporters are increasingly using bilateral long-term agreements to lock in markets by political means. In 1982-83, about one-third of all wheat traded on the world market moved under long-term agreements.

International markets for agricultural goods are dominated by commodity agreements, stock overhangs, quota systems, government-to-government agreements, and government marketing boards.

There are, however, markets—about which you know much more than I—that march to a different drummer, at least on the export side. In feed grains, the United States has a 60%-70% share of the total world market. Your council is not a government agency but an organization of competitors. Your 1981 policy statement is clear in its opposition to commodity agreements for feed grains. Even in this trade there are government interventions—the 1973 embargo that severely damaged our reputation as a reliable supplier, the subsidies some producers enjoy, the threats to access we have heard recently from Europe; but by comparison it is a good example of the competitive market at work.

Efforts To Liberalize Agricultural Trade

The challenge we face is to open other markets to greater competition. Since government intervention is the problem, we must deal with governments when we seek to liberalize agricultural trade. This is where foreign policy and the State Department become involved with other U.S. agencies, especially the U.S. Trade Representative and the U.S. Department of Agriculture (USDA). Those three agencies, strongly supported by President Reagan, are working together with other countries, one at a time or in groups, to reduce distortions in trade and permit each country to produce and sell according to its comparative advantage. The going is slow, in part because it is not always possible to put our objectives for agricultural trade ahead of all other objectives.

You may be interested in our efforts with four countries or groups of countries.

Japan. Japan is the largest purchaser of our agricultural products. Japan bought over \$6 billion worth of agricultural products from us last year. That was about 15% of all American agricultural exports. These sales result in part from years of prodding the Japanese to open their markets.

Progress has been made. For example, Japan has reduced the coverage of its import quotas from nearly 500 products in the 1960s to only 27 today. Japan's overall average tariff rates are below those of the United States and the EC. We cannot ignore, however, Japan's remaining barriers to U.S. agricultural exports. The further reduction or elimination of agricultural trade barriers in Japan and an expansion of imports would bring clear benefits to the Japanese people. Consumers suffer in practice what economists teach in theory, for in the end it is consumers who pay the price of protectionism. Tokyo housewives pay more than they should for beef, chicken, pork, milk, eggs, rice, and bread.

Lower trade barriers, of course, benefit American farmers as well as Japanese consumers. (In general, both partners to trade benefit; otherwise they would not trade.) If Japan were substantially to expand access to its markets for imported beef and citrus, we expect that our exports—now \$439 million for those two products—could expand significantly over the next few years. And you need not be concerned that selling more beef to Japan might mean a smaller market there for feed grains. After all, cattle must eat, and to the feed producer it makes little difference whether the steer is fed in Omaha or Osaka.

Beef and citrus are just examples. Japan has benefited dramatically from the world's open trading system. We will continue to urge that Japan fulfill its international obligations and open its markets more broadly.

European Community. The 10 nations of the European Community constitute another excellent market for the United States. Our agricultural trade surplus with the EC amounted to \$4.6 billion in 1983. Feed grains, nongrain feed ingredients, and soybeans for livestock represent the bulk of our agricultural exports to the EC.

At the same time, through its export subsidies, the European Community's Common Agricultural Policy—the CAP—has become the source of the most serious distortions of agricultural trade in the world. The CAP relies on a complex, expensive system of high domestic prices and variable import levies to protect the European farmer. These ensure high production. Heavy export subsidies

are then used to dispose of the surplus.

When world supply outruns the world demand, as now, world agricultural prices decline and supply should adjust. In the United States, this usually happens (dairy products being the major exception). Most U.S. Government programs seek to use the market to cut production, to build stocks, and to place a safety net under farm income. In contrast, European farm prices are set without reference to the world market price; they have increased almost every year in an effort to keep up with general inflation. The result is that for many farm commodities the domestic EC price has been as much as twice the world price. Production has soared beyond capacity to consume at home, creating huge surpluses. The surpluses are dumped on world markets with whatever subsidies are needed to move them. They depress world prices generally and compete with our products in third countries.

The EC's high-price, high-subsidy system thrusts a major portion of the true costs of the system upon its competitors. The U.S. Department of Agriculture estimates, for example, that the CAP costs us close to \$6 billion per year in lost farm export earnings.

CAP spending is driving the European Community into bankruptcy, providing effective pressure for reform of the CAP. We hope that the reform will produce a policy less distortive to trade. But some of the specific proposals now being considered would transfer more of the costs of the CAP to countries outside the EC.

The EC Commission has made proposals that would endanger our soybean trade and restrict our corn gluten feed exports. It has proposed a consumption tax on vegetable fats and oils designed to stimulate EC butter consumption by making margarine more expensive. Coincidentally, it would raise money for other farm programs. The commission has proposed a tariff quota on nongrain feed ingredients to limit further market growth. Soybeans and nongrain feed ingredients represent trade valued at almost \$5 billion, about 60% of U.S. agricultural exports to the EC.

We have warned the EC that we will defend our agricultural trade. Last year we reluctantly subsidized sales of wheat flour and of butter and cheese to Egypt on terms permitting our products to compete with the EC's export subsidies. Also, we have used USDA's export credit subsidy programs—so-called "blended" credits—to make inroads in markets now held by subsidized producers. There is no enthusiasm in the Administration for following the Europeans down the export subsidy path; we do not wish to see bad policies beget more bad policies.

But there are limits to our patience. The EC leaders meet March 19-20 in Paris. They must keep in mind the depth of our concern and the strength of our resolve. We have conveyed these concerns to the EC on many levels. Secretary Shultz, Secretary [of Agriculture] Block, and Ambassador Brock [U.S. Trade Representative] made our views known in no uncertain terms at the December 9 meeting in Brussels with the EC Commission president and five of his commissioners. In January our Embassies repeated the message. I want to take this opportunity to stress that we will take action to protect our trade interests if the EC unilaterally implements CAP reform measures that restrict our access to their market.

If my good friend Sir Roy Denman, the EC representative in Washington, were here, he would accuse me of being unfair. So, even in his absence, let me restore the balance. The European budgetary crisis has forced the European Commission and the member countries to take a serious and critical look at the Common Agricultural Policy. They acknowledge the importance of getting EC support prices down to world market levels and of holding them there. They recognize the wastefulness of overproduction and subsidies. As I said a moment ago, this budgetary crisis may have a silver lining for all of us interested in a more competitive market for agricultural products.

Developing Countries. In the long run, the big opportunity for U.S. farm exports will be in the developing countries. As countries develop, their purchasing power grows and creates larger markets for our products. The prospects for feed-grain exports, in particular, are staggering. The Food and Agriculture Organization of the United Nations estimates that LDC [less developed country] imports of coarse grains for feed will increase sixfold between the mid-1970s and the turn of the century. This potential market is but one economic dimension of our overall interest in self-sustaining economic growth among the developing countries.

The free play of the market is essential to sound and balanced economic growth. Developing countries will maximize their domestic production only when their farmers have an incentive to produce. They must receive a remunerative return for their work. Market prices and access to inputs such as fertilizer and adequate "infrastructure" are all important. We use our food aid agreements to encourage and assist developing countries to meet these objectives.

Unfortunately, many developing countries do everything possible to discourage agricultural production. Too often they follow policies 180° away from those followed by the European Com-

munity. The Europeans generate huge surpluses with high support prices and high prices to the consumer. The developing countries impose low farm prices on the producer and subsidize food prices for the urban consumer. Instead of surpluses, the LDCs have chronic—and growing—shortages. This may seem to be to the advantage of U.S. exporters—but remember the definition of demand you learned in your basic economics course: the amount consumers are willing and able to buy at a given price.

LDC debt-servicing difficulties have reduced foreign exchange available for imports, including food. The United States has been a leader in developing a strategy to deal with the debt problem. The International Monetary Fund (IMF) is playing a major role in this strategy. Fundamentally, the burden falls on the developing countries themselves to restore balance to their economies. A healthy agricultural sector is one key feature. But adjustment does not happen overnight. Increased IMF resources, including the \$8.4 billion from the United States recently approved by the Congress, will help tide over the developing countries. With this help, they will buy more U.S. agricultural products. As I told a congressional committee last fall, the IMF bill was partly farm legislation.

Financing helps only in the short term. In the longer run, the developing countries must earn the money necessary to service their debts and pay for their imports, including food. Protectionism, whether practiced by developed countries such as ourselves or by the developing countries themselves, impairs the ability to earn the foreign exchange the LDCs need to meet their obligations.

U.S.S.R. and China. In discussing our efforts with Japan, with the European Community, and with the developing countries, I have portrayed the Reagan Administration's efforts to reduce the political element of agricultural trade and replace it with a less political, more market-based system of trade. It is the genius of the market system that transactions are carried out according to prices offered and accepted by actors who need not know anything about each other except the information contained in prices. In most circumstances, the market will efficiently match buyers and sellers, establishing prices which will reflect the relative scarcity of the product and the demand for it. But there are exceptions. In the case of agricultural trade, our long-term agreements with the Soviet Union and China are evidence of those exceptions.

Long-term agreements—especially between governments—are not the preferred way to develop markets. Like other government activities, they tend to

lock in a relationship on political grounds, diminish the flexibility of the market, and disadvantage the efficient supplier.

But the Soviet Union and China are not your ordinary buyers. Their import needs can be enormous, and each tends to act as a single purchasing unit in meeting its needs. Political as well as economic factors influence their buying decisions. The potential for market disruption is high. To minimize the scope for disruption, the United States has long-term agreements with these two countries, specifying a minimum annual purchase and an upper limit beyond which there must be government-to-government consultations. We believe these arrangements serve our interests.

The rose is, however, not without its thorns. The very existence of a governmental agreement creates links between our grain trade and our overall bilateral relations with the Soviet Union and China. That link can be an irresistible temptation, of which the grain embargo of the previous administration is a vivid example. President Reagan has promised that he will not repeat that error. He has signed the Durenberger amendment guaranteeing contract sanctity for agricultural trade. But when the time rolls around to negotiate minimums, or ceilings, or annual offers with the Soviets, there is, inevitably, a discussion of the "signal" each option will send. Foreign policy considerations never are completely out of the trade picture when governments are in that picture.

Multilateral Efforts. In addition to our work with the four countries or groups of countries that I have described—Japan, the EC, the LDCs, and Russia and China—we are working also on a multilateral basis to improve the rules of agricultural trade. The General Agreement on Tariffs and Trade (GATT) is the focal point of these efforts. Five rounds of multilateral negotiations in the GATT have made great strides in liberalizing trade in industrial products, but they have done little for agriculture. Our trade representative, Ambassador Brock, has proposed a new round that would address the problems we have in agriculture, as well as those in services and high-technology products.

There is no shortage of opportunities to improve agricultural markets. The most important opportunities involve expanding access to markets by reducing quotas, tariffs, variable levies, and export subsidies. Other important issues include export credits, means of settling disputes, the link between production subsidies and exports, food aid, trade preferences, and technical standards and practices.

It is not clear yet what shape this new round of multilateral negotiations might take, or whether there is enough

international support for a new round to be productive. But a better trade climate for agriculture is a top priority on our trade agenda. We are encouraged by the support we have received from the Japanese. When Prime Minister Nakasone and President Reagan met last November, the Prime Minister personally suggested that agriculture be included in a new trading round. The Europeans are understandably reluctant, since we would insist that greater discipline over export subsidies be a key element of any new agreement, but nevertheless they are thinking about it.

Implications for Domestic Policies

As we strive toward a more market-oriented international system, we must examine our domestic policies to see if they serve to advance or to hinder these efforts.

Government's economic programs must be based on sound expenditure, tax, regulatory, and monetary policies. We should seek to ensure that government interferes with the market mechanism as little as possible. If we are interested in export markets, our domestic support prices must be held to levels that permit American production to meet and beat world prices. Support prices and other programs should provide a safety net to help cushion the shock of catastrophes. They should not be a featherbed for the most efficient or a bomb shelter for the least efficient.

It goes without saying that if we are to be successful in opening foreign markets, we must ourselves avoid resorting to protectionist pressures and gimmicks. Just as we object to protectionism in others, we should not expect them to welcome it in us, nor should we be surprised if they retaliate or use our actions as an excuse to justify their own protectionism. American agricultural markets are more open than those of most countries, but we have our share of highly protected sectors: meat, dairy, and sugar, for example.

Historically, American farmers have supported free trade and American farmers have helped shape American policies on international trade. U.S. agriculture was the beneficiary. We should keep in mind that for other countries to buy our products, we must buy theirs. This is especially true of the developing countries who are tremendously important to U.S. farmers, since they will be the most dynamic market for U.S. farm products.

To conclude, let me return to your theme: "strategy for transition" and the two possible outcomes I outlined at the beginning of my remarks. Our examination of the current state of world markets for agricultural products revealed heavy government intrusion in the functioning of these markets. In contrast, the Reagan Administration's approach to our major trading partners on agricultural trade has sought consistently to free up markets and peel away the overlay of government. Progress is slow and often frustrating. But our experience within the United States is encouraging.

Just in the past 5 years, competition has broken out in the U.S. economy. Air-

lines made the headlines first, and the benefits to the traveling public are clear. Trucking is coming along but more slowly. Although the breakup of "Ma Bell" may be debatable, the benefits of enhanced competition in communication have been obvious for more than a decade. In the financial sector the outbreak of competition has been nothing short of phenomenal. [Treasury Secretary] Don Regan was a leader in the effort from his perch as head of Merrill Lynch. Even now, the spread of competition in the financial sector is being pushed by the private sector despite resistance by certain government agencies.

If we can make this kind of progress in the United States, there is hope on the international front. There can be no doubt that a more competitive international market for agricultural products will benefit the American farmer and American agriculture. I said a moment ago that farmers have been the backbone of the free trade philosophy in the United States. We need the backing of the farm sector today more than ever. Let us hear from you. ■

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Secretary Shultz

Trade, Interdependence, and Conflicts of Jurisdiction

May 5, 1984



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Secretary Shultz before the South Carolina Bar Association, Columbia, South Carolina, May 5, 1984.

This is a year of some important anniversaries. Next month, on June 6, President Reagan will pay a visit to the Normandy beaches on the 40th anniversary of D-day. For those of us with an economic bent, this year is also the 40th anniversary of Bretton Woods—the historic conference of free nations that laid the foundation of the postwar economic system.

The essence of these postwar arrangements was to institutionalize cooperation in trade and finance in order to avoid the disastrous mistakes of the 1930s that had exacerbated and spread the Great Depression. The industrial democracies committed themselves to an open world economic system that promoted trade and the free flow of goods, services, and investment. They created new mechanisms of multinational action and new habits of economic policy. The result has been a generation of global economic expansion unprecedented in human history.

Over time, this postwar system has adjusted, of course, to new situations. The end of colonial empires brought into the global system scores of new nations which seek to develop and share in the new prosperity. Oil shocks, monetary disputes, and protectionist pressures have created stresses in the system. My subject this morning is another dimension of problems, often overlooked, which potentially could be more serious than any of the others. Ironically it is, in a sense, a product of the system's success.

You lawyers know it as the problem of "extraterritoriality" or more accurately as conflicts of jurisdiction. Sometimes the United States and other countries need to apply their laws or regulations to persons or conduct beyond their national boundaries. International disputes can arise as a result; sometimes, as in the case of the pipeline sanctions we imposed after martial law was declared in Poland, the legal disputes reflect disagreement on foreign policy.

My message today is twofold:

- In an interdependent world, such problems are bound to proliferate, because they are inevitably generated by the expanding economic and legal interaction among major trading partners in the expanding world economy.
- Secondly, unless they are managed or mitigated by the community of nations, these conflicts of jurisdiction have the potential to interfere seriously with the smooth functioning of international economic relations that is essential to continued global recovery.

So you can see why a Secretary of State, trained as an economist, has chosen such a topic to discuss before a distinguished bar association.

Dimensions of the Problem

Let me give you a few examples of what I am talking about.

- An American company claiming injury by foreign companies operating in our market as a cartel may bring an anti-

trust suit against those companies, yet their cartel may be permitted, or even encouraged, by their own governments.

- An American grand jury investigating the laundering of drug money and tax violations may subpoena documents of a bank operating in a Caribbean banking haven—a country that prohibits the disclosure of such information.

- In our country, 12 states have adopted the unitary tax system, which taxes a local subsidiary not only on the basis of its own operations but also taking into account the operations of the corporate parent and other subsidiaries. Foreign companies and their governments are protesting vigorously, because such a system can lead to double taxation.

- The Commission of the European Community, on the other hand, is considering regulations that would require European subsidiaries of American firms to disclose what the firms consider sensitive business information—plans for investment and plant closings, for example, even including those outside Europe.

- Finally, our allies may object strenuously when the United States attempts to prevent foreign subsidiaries and licensees of American companies from exporting certain equipment or technology to the Soviet Union or other countries for reasons related to our foreign policy objectives.

These examples show you the variety of different issues that can give rise to questions of conflicts of jurisdiction. And they suggest why, with the best of intentions, we are likely to run into many problems of this kind.

Conflicts Over Economic Issues

The volume of international transactions has grown tremendously in the last three decades. The contribution of international trade as a proportion of American gross national product has doubled since 1945. American exports increased from \$43 billion to more than \$200 billion in the 1970s alone. The value of world trade more than doubled during that period. American direct investment abroad as of 1982 totaled some \$221 billion; foreign direct investment in the United States in the same year stood at \$102 billion.

One symbol of this age of economic interdependence is the multinational corporation. The conditions that produced the explosion in trade across national boundaries have led to a similar internationalization of industry. Thirty years ago, most American industrial firms conducted their operations top to bottom within the United States. Today, those same operations are often spread out across the globe, whether to produce com-

ponents at the lowest price or to produce goods closer to potential markets. Today, virtually every line of trade and industry has been affected—and advanced—by the spread and growth of multinational enterprises.

In this environment of commercial and industrial expansion, it is not surprising that the United States—and other nations—often find it necessary to apply their laws, regulations, and policies to activities abroad that have substantial and direct effects on their own economies, interests, and citizens. Needless to say, our assessment of our need to reach persons or property abroad often runs up against other nations' conceptions of their sovereignty and interests and, if not handled skillfully and sensitively, can escalate into legal and political disputes.

Our relations with our neighbor Canada provide the best illustration of the potential for trouble—which, in this case, I'm happy to say, is pretty well under control. Americans own a controlling interest in approximately 35% of Canadian industry. In 1982, Canadian exports to the United States constituted 20% of Canada's gross national product. Approximately 70% of Canada's oil and gas, 37% of its mining, and 47% of its manufacturing is controlled from abroad. Speaking from this perspective, Canadian Ambassador Alan Gotlieb has characterized our attempts to exercise jurisdiction over persons or entities in Canada as calling into question "the ability of a national government to impose its laws and policies—that is, to govern—within its national boundaries."

Just after I was confirmed as Secretary of State, I traveled to Ottawa for 2-day talks with my Canadian counterpart, External Affairs Minister Allan MacEachen. After our talks, we announced our intention to meet at least four times each year to discuss bilateral and multilateral issues. We have already met seven times, and issues of extraterritoriality have invariably been at the top of our list. These issues range from banking and taxation to export controls and antitrust regulations.

Canada is not our only ally concerned about these issues. In the past year we have received more than 25 formal diplomatic demarches on the subject from many of our closest allies and trading partners. One of their major concerns is the unitary tax, now in use in 12 American states. In my tenure at the State Department, few issues have provoked so broad and intense a reaction from foreign nations. Fourteen countries submitted a joint diplomatic communication to the Department of State over this issue.

These countries—the 10 members of the European Community plus Japan, Canada, Switzerland, and Australia, representing 84% of total foreign direct investment in the United States (that's \$85 billion)—had three complaints. They complained about the administrative burden of compliance and about the potential for double taxation. And they warned that we must anticipate adoption of unitary taxation by developing nations who are heavily in debt and looking desperately for new sources of revenue. As the world's largest foreign direct investor, the United States will be a big loser if the practice becomes widespread. Developing nations, I might add, would be even bigger losers in the long run, since they would scare away investors.

Although on a technical level it can be debated whether unitary taxation really involves "extraterritoriality," it is perceived that way on a political level. Thus I am pleased to see that the Unitary Tax Working Group of Federal, state, and business representatives—established at the President's direction—has reached a consensus in favor of limiting unitary taxation to the "water's edge." Despite problems yet to be overcome, we think substantial progress has been made toward finding a practical solution.

National Security and Foreign Policy Conflicts

As controversial as these conflicts over trade and financial issues can be, the potential for sharp controversy is even greater when the disputes involve major foreign policy concerns. As the largest free nation, the United States must use the full range of tools at its disposal to meet its responsibility for preserving peace and defending freedom.

You all remember the case of the pipeline sanctions. When martial law was imposed in Poland in 1981, President Reagan applied economic sanctions to show that "business as usual" could not continue with those who oppress the Polish people. We prohibited exports of oil and gas equipment and technology to the Soviet Union by firms within the United States and by foreign firms using American-made components or U.S. technology. Eventually we also prohibited exports of wholly foreign-made commodities by subsidiaries of U.S. firms abroad. This caused a major dispute between us and our trading partners, who complained of the extraterritorial reach of the sanctions and the retroactive interruption of contracts already signed.

Our Export Administration Act, which is now up for renewal, authorizes the government to impose controls on exports of equipment or technology on

grounds of either national security or foreign policy. That authority extends not only to entities within the United States but to any entity, wherever located, that is subject to U.S. jurisdiction. We consider this to include foreign subsidiaries of U.S. firms, although such authority has rarely been exercised. The act also provides authority for controls on reexports and for controls on the export abroad of foreign products using U.S. components or technology.

Thanks to the allied consensus on the need to keep militarily useful technology from falling into the hands of our adversaries, implementation of so-called "national security" controls has not generally created problems over extraterritoriality. Each allied government enforces similar controls, and policies are kept in harmony through the Coordinating Committee for Multilateral Security Export Controls or COCOM. It doesn't make sense to spend billions of dollars on defense but at the same time help our adversary build up the very military machine that we are spending the billions to defend against.

When it comes to use of export controls to impose sanctions on foreign policy grounds, which we resort to very sparingly, no such consensus exists. Our efforts under the Export Administration Act to compel U.S. firms outside the United States to adhere to our foreign policy controls have stirred up new controversy. This is in part because some of our allies do not share our belief in the efficacy of economic sanctions, in part because of differing strategic perspectives, and in part because their domestic economic interests would have been more adversely affected than ours.

In our current effort to extend and amend the Export Administration Act, we have given careful consideration to some of the provisions that made the pipeline sanctions so controversial. Specifically, the Administration supports clarifying the criteria for controls on so-called "foreign policy" grounds, taking account of the principle of sanctity of contracts in this area. At the same time, resolution of the pipeline dispute has demonstrated the benefits of a cooperative allied approach to economic relations with the Soviet bloc.

When I was in private business, I was concerned about the practice of using foreign trade as a tactical instrument of foreign policy. I called it "light-switch diplomacy"—the attempt to turn trade on and off as a foreign policy device. The problem is twofold. First; the United States is no longer in such a dominant position in world trade that our unilaterally imposed sanctions have as powerful a political effect as is intended. Moreover, America's reliability as a supplier is

eroded; other countries simply change suppliers or design U.S. components out of the goods they manufacture. The U.S. economy suffers unless our main trading partners go along with us. Foreign aircraft manufacturers, for example, are already avoiding U.S.-made high-technology navigational devices for fear that some day new U.S. export controls might be imposed, preventing sales or drying up supplies of parts.

Now that I am Secretary of State, I continue to have the same concerns. But I know, too, that there are cases beyond the strict legal definition of "national security" that pose a serious challenge to our broader security and other foreign relations interests. In these cases, economic and commercial interests cannot be the sole concern of policy. Dealing with Libya and Iran is an example; and we must be able to prevent U.S. commerce from being the source of chemicals used unlawfully in regional conflicts.

For these kinds of cases, it seems to me imperative for the President to have discretionary authority to use national security and foreign policy controls on a selective basis. Although such controls can have painful side effects, the alternatives available for responding to threatening international developments can sometimes have even higher costs. We have thought a lot about the proper balance and have tried to build such a balance into the President's proposal for amending the Export Administration Act. This approach merits congressional support.

But it is clear that problems will remain. As the world economy grows more interdependent, as the machinery of business regulation grows more complex, as the Soviet Union steps up its drive to acquire advanced technology that it cannot produce itself, the opportunity for differences is bound to grow. Any one of the major trading countries is likely, on some occasion in the future, to feel that its national interest or public policy cannot be served without an assertion of jurisdiction that leads to a disagreement with its partners. And, if the disputes get out of hand, they could do damage to this open system of trade and investment and become an obstacle to further economic growth, as I have said. Disputes over extraterritoriality could become a bigger threat to our economic interests than the present concerns about tariffs, quotas, and exchange rates. On a political level, they can become a serious irritant in relations with our allies and thus even weaken the moral foundation of our common defense.

So extraterritoriality is not an esoteric, technical matter. It is high among my concerns as I go about the job

of managing the foreign relations of the United States.

The Necessity for a Solution

It is, in fact, a matter of some urgency. Increasingly, conflicts of jurisdiction are resulting in defensive and retaliatory actions on the part of some foreign governments.

A number of countries have enacted "blocking" statutes seeking to forbid individuals or companies from complying with U.S. law or regulation. In 1980, for example, Britain enacted the Protection of Trading Interests Act. This law empowers the British Government to order companies in Britain not to comply with foreign subpoenas and discovery orders, as well as foreign laws, regulations, or court orders that threaten to damage British trading interests. The act also authorizes a British company to retaliate against private treble-damage antitrust awards by filing a countersuit in British courts.

In addition, the prospect of application of our laws to offshore conduct is beginning to result in new barriers to investment. Acquisitions and mergers have also been impeded, and foreign manufacturers are beginning to seek alternative sources of supply to replace U.S. sources that are considered unreliable.

- The threat of U.S. export controls has, indeed, inspired foreign purchasers to design around or circumvent the use of U.S. components in their products. An Italian firm, for example, uses General Electric rotors in turbines it manufactures for the Soviet pipeline project. Early this year, it notified GE that it wanted the license to manufacture the rotors in Italy or else it would manufacture them without GE approval by using technical knowledge developed over the years of using GE components.

- The unitary tax has made foreign companies think twice about building plants in the United States. A few months ago, the president of Fujitsu was reported in the *Washington Post* as saying that his company is delaying plans to build a plant in California to see whether that state repeals its unitary tax law. Sony has stated that it decided to expand new U.S. investment here in South Carolina rather than California because of California's unitary tax. (South Carolina, I must say, has a remarkable record of attracting some \$3.5 billion in foreign investment in the last dozen years or so.)

- Speaking more broadly, we have had a number of suggestions from friends and allies in recent years that application of American law where it conflicts with their policies can only serve to damage adherence to an investment principle we

have long cherished: national treatment for American-owned companies abroad.

These may be only the tip of the iceberg. The threat of extensive application of domestic law—be it U.S. or European law—to entities or persons abroad has the potential to harm the fabric of the global economic system. And disputes of this kind pose a danger of poisoning political cooperation among the democracies, whose solidarity and cohesion are the underpinning of the security, freedom, and prosperity of all of us. It is imperative, therefore, that we manage the problem of conflicts of jurisdiction.

The Search for Solutions

As we search for solutions, we can start by examining an analogy from our own history. As lawyers, you have much experience with dealing with conflicts of laws among the several states. And you remember that as this country grew from a collection of “free and independent states” under the Declaration of Independence to its status as a “more perfect union” under the Constitution, this growth was accompanied by a political struggle over the effort to centralize and strengthen national control over interstate commerce.

It's not news to the people of South Carolina that the growth of our country gave rise to a continuing tension between the sovereign states and the Federal Government. In the economic sphere, notwithstanding the centralizing clauses of the Constitution, conflicts of jurisdiction arose from the states' attempt to regulate and tax the railroads in the late 1800s. America's railroads, indeed, were an early example of multijurisdictional enterprises. Their growth made the United States a truly “national” market for the first time. Understanding the importance of economic integration, the Supreme Court decided in several landmark cases, dealing with shipping and interstate commerce, that conflicts of jurisdiction among the several states could not stand in the way of national prosperity. Today, the United States can be viewed as the largest free-trade area in the world.

In the United States we have been fortunate that the friction generated by conflicts of jurisdiction has been eased by a strong Federal system. In the international arena, differences among nations are not so easily resolved. As a result, what may first appear to be a clash of legal principles can quickly escalate into a major diplomatic incident. International law, instead of mitigating conflict, can become a battleground until the underlying dispute is eased by creative

diplomacy. The need for such solutions is becoming more urgent as conflicts of jurisdiction multiply in our economically interdependent world.

The question we face, however, is not whether extraterritorial reach should be permissible but rather how and when it should be done. Thanks to the wonders of modern electronics, corporations and individuals can frustrate important national regulations and laws by transferring assets, data, and documents across oceans with a telephone call or the push of a computer button. In such a world, where transactions often involve parties in several nations, rigid territorial limits to jurisdiction are, in fact, not practicable.

Even some of the most eminent critics among our allies recognize this. Canadian Ambassador Gotlieb has stated:

It is clear that in our interdependent world a purely territorial approach to sovereignty—one that completely separates national jurisdictions—is not workable; some extraterritoriality is inevitable and, sometimes, even desirable.

Nevertheless, it is essential that the industrialized world find ways of containing or mitigating or resolving some of the problems. The United States cannot disclaim its authority to act where needed in defense of our national security, foreign policy, or law enforcement interests. However, we are prepared to do our part in finding cooperative solutions. We are prepared to be responsive to the concerns of others. If our allies and trading partners join with us in the same spirit, we can make progress.

The first element of our approach is to strive to resolve the policy differences that underlie many of these conflicts of jurisdiction. The pipeline dispute, for example, was resolved through diplomacy: the United States lifted the sanctions while the industrial democracies began working out a new consensus on the important strategic issues of East-West trade. Harmonizing policies is not easy. Our allies are strong, self-confident, and independent minded; and they do not automatically agree with American prescriptions.

Even where policies are not totally congruent, it may be possible at least to bring them closer together in some areas, or to agree on some ground rules that allow us to meet our legitimate needs. Some examples include regulating competition, pursuing foreign insider trading in our securities markets, and protecting what we consider to be our sensitive technology. A good case in point is the cooperation we recently received from several foreign governments in intercepting sensitive computers that were being diverted to the Soviet Union.

Second, where policies do not mesh, countries should seek to abide by the principle of international comity: they should exercise their jurisdiction only after trying to take foreign interests into account, and they should be prepared to talk through potentially significant problems with friendly governments at the earliest practicable stage.

Sometimes, the answer may be a formal international agreement. We have tax treaties with 35 nations, for example, including all the major industrial countries. I have just returned from China, where the President signed a tax treaty that will enter into force after ratification. These have the effect of harmonizing national systems and fostering international commerce, and they usually establish procedures for enforcement cooperation.

Similarly, we and our partners have been expanding formal arrangements for mutual assistance in the law enforcement area. Three such formal treaties are already in force, three more have been signed and are awaiting ratification, and several more are under negotiation.

We are also discussing ways to develop further our informal arrangements of advance notice, consultation, and cooperation with foreign governments where appropriate and feasible. Under OECD (Organization for Economic Cooperation and Development) guidelines regarding antitrust enforcement, in place since 1967, the United States has notified or consulted with foreign governments approximately 490 times regarding antitrust cases, including the well-known Uranium and Laker matters. With West Germany, Australia, and Canada, we have expanded these guidelines into bilateral agreements or arrangements.

We have cooperative procedures as well for some of the independent regulatory agencies. The Federal Trade Commission (FTC), for instance, participates in the antitrust notice and consultation program I mentioned earlier. And the Securities and Exchange Commission (SEC) has entered into a Memorandum of Understanding with Switzerland, through which we can obtain information in Switzerland that we need in investigating insider trading and other securities violations.

Third, we are working to improve coordination within the U.S. Government. Within the executive branch we are studying procedures through which other agencies inform and, if appropriate, consult with the Department of State when contemplating actions that may touch foreign sensitivities about conflicts of

jurisdiction. The State Department has already played a constructive role in assisting, for example, the SEC, the FTC, and the Justice Department.

Fourth, we are considering the development of bilateral and multilateral mechanisms for prior notice, consultation, and cooperation with other governments. In the OECD, we are working out a set of general considerations and practical approaches for dealing with cases of conflicts of jurisdiction relating to multinational corporations. Discussions are taking place also in the UN framework with both developing and industrialized countries. We have had extensive bilateral consultations with Britain and Canada, and we are ready to consider such appropriate and mutually beneficial arrangements with other interested friendly countries.

Such measures will not end conflicts of jurisdiction, but they are an earnest of this country's determination to do what it can to avoid conflicts where we can and to minimize the harm that the unavoidable

conflicts can do. The United States, for its part, will continue to maintain that it is entitled under international law to exercise its jurisdiction over conduct outside the United States in certain situations. We will continue to preserve the statutory authority to do so. But we will exercise the authority with discretion and restraint, balancing all the important interests involved, American and foreign, immediate and long-term, economic and political.

Problem Solving

The essence of our approach is to reduce the problem from an issue of principle to a practice of problem solving. This is because, in the final analysis, there is a higher principle at stake: the political unity of the democratic nations. That unity, as I said earlier, is the key to our common security, freedom, and prosperity. The system of law that we and our allies so cherish and the free economic system that

so nourishes us are under severe challenge from adversaries who would impose their own system by brute force. If the free nations do not stand solidly together on the fundamental issues, we all risk losing much that is precious—far more precious than the subject matter of any particular dispute.

To solve these problems, we need creative thinking on the part of the American legal community, businessmen and economists, government officials, foreign policy experts—and their counterparts abroad. I know that with imagination and dedication, we in the free world can surmount these obstacles. Too much is at stake for us to do otherwise. ■

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BUREAU OF
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RESEARCH

TRADE PATTERNS OF THE WEST, 1982

This report, one of a series, analyzes the trade patterns of Western countries. Its tables show the 1982 trade of the European Community (EC) of Ten,^{1/} the European members of NATO,^{2/} the European members of the Organization for Economic Cooperation and Development (OECD), the United States, Canada, Japan, Australia, New Zealand, NATO as a whole, and OECD as a whole with:

- one another;
- the Organization of Petroleum Exporting Countries (OPEC);
- the European members of the Council for Mutual Economic Assistance (CEMA);^{3/}
- China; and
- the rest of the world.

Data for imports and exports are given both in dollar terms and in terms of the percentage of each country's or area's total trade. Comparisons with 1981 are made in terms of percentage shares, rather than trade values, in order to minimize the distorting effects of inflation and exchange rate fluctuations.

- ^{1/} See Notes, p. 5, for a listing of member countries in the EC and other organizations discussed in this report.
- ^{2/} Spain joined NATO in May 1982, but for comparison purposes Spain's trade has been added to that of NATO for 1981.
- ^{3/} Also abbreviated COMECON or CMEA.

An examination of the tables reveals the following points of particular interest:

Most West European countries (European OECD) trade chiefly with one another, and this trade increased, but European countries' trade with OPEC members declined. In 1982, 64.4 percent of the exports (an increase of 1.1 percentage points over 1981) and 59.8 percent of the imports of Western Europe (an increase of 1.5 percentage points over 1981) stayed within its borders. Western Europe's average imports from OPEC amounted to 11.4 percent of its total imports (down from 13.0 percent in 1981). The shares of individual countries in such imports ranged from 40.5 percent for Turkey, 26.7 percent for Spain, 22.6 percent for Greece, and 20.1 percent for Italy on the upper end of the scale to 1.0 percent for Norway and less than 0.1 percent for Iceland at the bottom. Average exports to OPEC went down 0.3 of a percentage point to 9.2 percent of total exports. They ranged from 39.6 percent for Turkey to 1.6 percent for Norway.

The European Community is similarly the principal trading area for its 10 members. For the Ten, 51.7 percent of exports and 48.7 percent of imports stayed within the EC. Both figures were higher compared with those of 1981: 1.3 percentage points for exports and 1.4 percentage points for imports. The importance of the EC was high for Ireland (its exports to other EC countries were 70.5 percent of its total exports, and its imports from them were 69.9 percent of its total imports), Belgium-Luxembourg (exports 70.6 percent and imports 63.2 percent), and the Netherlands (exports 72.2 percent, imports 54.0 percent). EC importance was somewhat less for Denmark (exports 48.6 percent, imports 48.8 percent), France (exports 48.7 percent, imports 47.5 percent), and the Federal Republic of Germany (exports 47.4 percent, imports 47.6 percent). The United Kingdom had the lowest trade with its EC partners (exports 41.6 percent, imports 44.3 percent).

The FRG was the most important single trading partner of the other nine countries in the Community: 11.8 percent of the exports of the other nine went to the FRG, and 12.6 percent of their imports came from it. This represents a decrease of 0.2 of a percentage point for exports compared with 1981 and an increase of 0.7 of a percentage point for imports.

Western Europe is much more important to the US as a customer than the US is to Western Europe. In 1982, the US directed 28.0 percent of its exports to Western Europe, but only 6.8 percent of Western Europe's exports went to the US. The EC countries alone took 22.6 percent of total US exports while they sent 7.1 percent of their exports to the US. US exports to Western Europe amounted to \$59.5 billion, and US imports from there were \$52.0 billion. This \$7.5 billion US trade surplus with Western

Europe (although much smaller than the \$13.1 billion in 1981) was for a year in which the US had a global trade deficit of \$31.7 billion.

US imports from OPEC were 12.8 percent of total US imports, or \$31.2 billion. This is a remarkable reduction, about one-third, from the 1981 level, which amounted to 18.9 percent of total US imports, or \$49.4 billion. US exports to OPEC were 10.8 percent of total US exports, or \$22.8 billion. In 1981, they were 9.2 percent of total exports, or \$21.5 billion.

Japanese trade with the US and OPEC remained significant. Japan's exports to the US amounted to \$36.5 billion, or 26.4 percent of total Japanese exports. This percentage was 0.7 of a percentage point more than in 1981. US exports to Japan amounted to \$21.0 billion. This figure represents 9.9 percent of all US exports, 0.6 of a percentage point more than in 1981. Thus, there was a \$15.5 billion imbalance in Japan's favor in the trade between the two countries. Japan's imports from OPEC amounted to \$48.2 billion, or 36.8 percent of its global imports. This figure was 1.6 percentage points lower than the one for 1981. In value these imports are the highest of all OECD countries; in percentage terms they rank second, behind those of Turkey (40.5 percent). Exports to OPEC amounted to 15.7 percent of total Japanese exports, or \$21.8 billion.

Trade of all NATO countries with European CEMA countries varied. As a percentage of NATO's total trade, it rose 0.3 of a percentage point in the case of imports and declined 0.2 of a percentage point for exports. NATO members exported 2.9 percent of their total exports to those countries and imported 3.3 percent of their total imports from them. The US and Canada recorded the lowest figures in the case of imports: 0.4 percent for the US and 0.3 percent for Canada. US exports decreased by 0.2 of a percentage point, from 1.9 percent in 1981 to 1.7 percent in 1982. Canada's exports rose by 0.3 of a percentage point to 3.0 percent.

Trade of European NATO countries with European CEMA countries was 4.5 percent for imports and 3.3 percent for exports. This meant an increase of 0.3 of a percentage point for imports and a decline of also 0.3 of a percentage point for exports. EC trade (excluding Ireland) with European CEMA countries was 4.7 percent for imports (a rise of 0.5 of a percentage point) and 3.3 percent for exports (a decline of 0.3 of a percentage point).

The trade of individual European NATO countries ranged widely. As a percent of each country's exports to European CEMA countries as a whole, there were sizable exports from Iceland (8.4 percent), Greece (7.7 percent), and the FRG (5.7 percent). Compared with 1981, these figures represent an increase of 0.5 of

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a percentage point for Iceland, a decline of 0.4 of a percentage point for Greece, and no change for the FRG. Of each country's total imports, imports from European CEMA were 10.3 percent for Iceland, 6.7 percent for the FRG, and 6.0 percent for Italy. Compared with 1981, all these imports had increased: Iceland's by a full percentage point, the FRG's by 0.5 of a percentage point, and Italy's by 0.8 of a percentage point. Trade with the CEMA countries was least for Norway, whose exports amounted to only 1.2 percent and imports 3.7 percent; the UK, whose exports were 1.6 percent and imports 2.0 percent; and Belgium-Luxembourg, whose exports were 1.7 percent and imports 3.2 percent.

Trade of non-NATO countries and European CEMA also varied considerably. Finland and Austria were the biggest traders in terms of percentages of total trade. Finland's exports to those countries were 28.8 percent and its imports from them, 27.8 percent; Austria's trade, both exports and imports, was 11.1 percent. On the other hand, the trade of Sweden and Switzerland ranged between 3.0 percent and 5.6 percent. Ireland, as in previous years, ranked the lowest: its exports to those communist countries were 0.8 percent and imports from them 1.3 percent of its total exports and imports.

Trade of OECD countries with China was small. Trade between Western Europe and China was insignificant. As an average, European OECD countries exported and imported 0.3 percent of their total trade to and from China. Of the exports, Denmark sent 0.9 percent of its total exports there, Spain 0.6 percent, and the FRG and Switzerland each 0.5 percent. Italy imported 0.5 percent of its total imports. All other West European trade, in either direction, was below these figures. Outside Europe, Japan was the biggest trader with China, sending 2.5 percent of its total exports there and receiving 4.1 percent of total imports. Australia's trade was next in importance. It shipped 3.8 percent of its exports to, and received 1.3 percent of its imports from, China. New Zealand's exports were 1.6 percent and its imports 0.7 percent. The US sent China 1.4 percent of its exports and received 0.9 percent of its imports from there. Canada's figures were 1.5 percent of its exports and 0.3 percent of its imports.

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Notes

This report is based on information available to the Department of State on August 15, 1983.

1. EC countries: Belgium, Denmark, Federal Republic of Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, and United Kingdom.
2. NATO countries: Belgium, Canada, Denmark, Federal Republic of Germany, France, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Turkey, United Kingdom, and United States.
3. OECD countries: Australia, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.
4. OPEC countries: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.
5. European CEMA countries: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, and USSR.
6. Any apparent inconsistencies in the tables are the result of:
 - a. Differences between export and import prices: all exports are f.o.b. and all imports, c.i.f., except for US, Canadian, and Australian imports, which are f.o.b.
 - b. Time differences: exports of one country may not be recorded as imports of the trade partner in the same year, and vice versa.
 - c. Because of rounding, the tables showing percentages (tables 2, 4, 6, and 8) do not necessarily add to the totals shown. There may be differences of up to 0.4 points. Because many subtotals are shown, it is technically impossible to adjust every figure to add up to the totals.
 - d. All data in the text are rounded to billion dollars, but all percentages are based on unrounded figures.

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Australia, New Zealand, Turkey:	International Monetary Fund. Data for New Zealand and Turkey are estimates.
FRG-GDR Trade:	<u>Wirtschaft und Statistik,</u> February 1983.
All Others:	<u>OECD Statistics of Foreign</u> <u>Trade, Monthly Bulletin,</u> <u>Series A, various issues.</u>

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Table I. Trade of EC Countries, 1982
(Value in millions of dollars, imports c.i.f., exports f.o.b.)

Trading Country or Area	Belgium-Luxembourg		Denmark		France		Fed. Rep. of Germany ^a		Greece		Ireland		Italy		Netherlands		UK		Total EC of Ten ^b	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	..		450.1	278.8	8,900.4	7,976.4	10,456.8	12,614.4	238.7	74.0	210.6	361.8	2,009.6	2,128.8	6,858.2	9,397.4	5,010.0	4,022.4	34,894.4	36,864.0
Denmark	271.0	514.4	-	-	844.8	663.6	2,690.4	3,483.6	103.2	36.4	78.7	55.0	799.2	486.0	610.6	1,139.2	2,337.6	1,920.0	7,736.5	8,298.2
France	8,039.3	10,161.2	688.4	844.2	-	-	17,690.4	24,812.4	704.5	297.8	448.4	703.8	10,743.6	11,167.2	4,069.0	6,892.7	7,473.6	7,854.0	49,867.2	62,733.3
Fed. Rep. of Germany	11,568.1	10,719.0	3,446.8	2,664.7	19,423.2	13,627.2	-	-	1,704.1	812.9	742.8	755.9	13,794.0	11,452.8	13,865.0	19,544.6	12,978.0	9,478.8	77,522.0	69,056.9
Greece	95.5	257.8	40.8	130.2	442.8	964.8	1,132.8	1,932.0	-	-	10.3	35.8	500.4	1,348.8	187.2	733.2	265.2	446.4	2,675.0	5,849.0
Ireland	224.6	188.8	56.9	74.8	670.8	424.8	757.2	702.0	31.4	8.5	-	-	238.8	212.4	387.5	350.3	3,501.6	5,060.4	5,888.8	7,022.0
Italy	2,079.8	2,643.0	523.6	763.0	11,073.6	10,413.6	11,844.0	13,340.4	920.8	376.3	255.2	236.4	-	-	1,905.2	3,657.5	4,804.8	3,541.2	33,407.0	34,971.4
Netherlands	10,078.6	7,432.7	1,203.7	529.2	6,393.6	4,252.8	18,949.2	14,875.2	541.1	174.6	367.2	420.8	3,714.0	2,254.8	-	-	7,832.4	8,145.6	49,179.8	38,086.7
UK	4,069.9	5,061.7	1,816.2	2,153.8	7,009.2	6,682.8	11,080.8	12,603.6	364.3	205.2	4,656.4	3,136.1	3,402.0	4,599.6	5,888.5	6,126.8	-	-	38,287.3	40,589.6
Total EC of Ten	36,526.8	36,978.6	8,226.5	7,438.7	54,758.4	46,006.0	74,601.6	84,363.6	4,608.1	1,985.7	6,769.6	5,706.6	36,961.6	33,650.4	33,771.2	47,841.7	44,203.2	40,468.8	299,427.0	303,439.1
Iceland	11.8	24.1	13.4	100.4	22.8	25.2	57.6	102.0	9.8	-	0.4	1.6	22.8	19.2	5.0	66.6	127.2	180.0	270.8	518.1
Norway	617.9	335.9	624.7	994.0	1,436.4	538.8	4,090.8	2,278.8	21.1	3.4	31.8	46.0	247.1	319.2	962.2	565.1	3,542.4	1,618.8	11,574.5	6,700.0
Portugal	140.0	229.3	72.2	57.1	567.6	799.2	598.8	1,102.8	11.3	11.4	31.6	24.5	224.4	505.2	209.0	360.6	664.8	753.6	2,519.7	3,843.7
Spain	507.7	555.5	137.3	153.8	3,523.2	2,917.2	2,100.0	3,175.2	114.5	38.5	102.1	123.7	1,216.8	1,393.2	793.4	668.3	1,753.2	1,677.6	10,248.2	10,703.0
Turkey	84.7	135.2	15.1	20.3	240.0	255.6	642.0	992.4	18.1	9.6	7.4	1.7	306.0	472.8	95.6	146.2	363.6	381.6	1,772.5	2,415.4
Total European NATO^c	37,664.3	38,069.8	9,032.3	8,689.5	59,877.6	49,117.2	81,333.6	91,312.8	4,751.5	2,040.1	6,942.9	5,903.1	37,740.0	36,147.6	36,448.9	49,297.2	47,152.8	40,020.0	319,943.9	320,687.3
Austria	238.6	362.5	186.8	123.4	680.4	712.8	4,574.7	8,473.2	162.8	40.0	35.3	37.0	1,444.8	1,582.8	393.4	570.2	708.0	439.2	8,424.8	12,341.1
Finland	201.0	224.3	695.4	335.2	549.6	385.2	1,318.8	1,738.8	71.5	8.9	82.0	42.6	280.8	316.8	445.3	355.9	1,488.0	902.4	5,132.4	4,310.1
Sweden	910.2	786.1	1,966.2	1,664.9	1,700.4	1,057.2	3,070.8	4,677.6	103.2	19.7	149.8	113.8	912.0	766.8	1,204.8	1,188.0	2,929.2	3,387.6	12,946.6	13,681.7
Switzerland	1,340.3	1,683.1	298.2	327.5	2,322.0	3,676.8	5,048.4	8,776.8	123.2	33.6	102.8	78.5	2,946.0	2,929.2	728.0	1,406.8	2,923.2	2,094.0	15,832.1	21,006.3
Total European OECD	40,579.0	41,314.6	12,236.8	11,215.3	65,800.8	55,374.0	96,103.5	115,681.2	5,243.6	2,150.8	7,312.8	6,175.0	43,562.4	41,956.6	38,607.9	53,168.4	58,702.8	51,903.6	368,148.6	378,838.5
US	4,066.7	2,306.3	1,187.4	919.9	9,088.8	5,223.6	11,611.2	11,583.6	421.4	380.6	1,246.2	577.7	5,812.8	5,174.4	5,738.8	2,150.2	11,678.4	13,099.2	50,851.7	41,415.5
Canada	406.7	200.2	90.5	102.6	805.2	704.4	1,356.0	1,042.8	45.1	13.8	118.4	98.4	738.0	556.8	501.2	185.0	2,520.0	1,490.4	6,581.1	4,394.4
Total NATO^d	42,137.7	40,576.3	10,310.2	9,712.0	69,771.6	56,046.2	94,300.8	103,939.2	5,219.9	2,434.5	8,307.5	6,579.2	44,290.8	41,878.8	41,688.9	51,632.4	61,361.2	54,608.6	377,378.7	388,407.2
Japan	1,092.1	326.3	518.5	246.8	3,050.4	1,074.0	5,217.6	2,102.4	629.9	25.8	285.2	103.0	1,092.0	790.8	1,327.4	309.2	4,652.4	1,192.8	17,865.5	6,171.1
Australia	156.4	122.1	21.2	74.0	567.6	423.6	612.0	1,320.0	20.0	20.0	3.8	90.5	456.0	510.0	193.8	229.0	864.0	1,830.0	2,894.8	4,619.5
New Zealand	80.6	27.0	13.0	19.1	135.6	55.2	122.4	196.0	36.5	1.6	13.4	10.6	105.6	63.6	33.5	57.5	944.4	566.4	1,485.0	997.8
Total OECD^e	46,381.5	44,296.8	14,066.4	12,577.7	79,448.4	62,864.8	115,022.7	131,926.8	6,396.5	2,592.6	8,979.8	7,056.2	51,766.8	49,051.2	46,402.6	50,099.3	79,362.0	70,082.4	447,828.7	438,638.6
USSR	1,468.0	536.0	327.5	87.5	2,857.2	1,556.4	4,472.4	3,868.8	220.8	141.5	53.8	42.7	3,540.0	1,509.6	2,571.4	423.6	1,129.2	622.8	16,640.3	8,788.9
Other European CEMA	382.9	371.6	394.4	157.4	1,446.0	1,252.8	5,977.1	6,284.3	306.7	190.2	75.6	20.3	1,652.4	933.6	701.3	568.8	848.4	885.6	11,784.8	10,664.6
Total European CEMA	1,850.9	907.6	721.9	244.9	4,303.2	2,809.2	10,449.5	10,153.1	527.5	331.7	129.4	63.0	5,192.4	2,443.2	3,272.7	992.4	1,977.6	1,608.4	28,426.1	19,463.6
China	137.5	208.4	58.6	134.8	435.6	344.4	702.0	852.0	20.8	2.4	11.8	4.4	426.0	210.0	192.1	66.5	338.4	180.0	2,322.8	2,002.9
Rest of World	9,459.4	6,992.8	1,994.7	2,359.2	31,195.2	26,342.4	30,606.9	35,150.4	3,023.6	1,358.7	567.2	966.6	28,538.4	21,675.6	12,718.2	9,073.2	17,997.6	25,450.8	136,101.2	129,389.7
of which OPEC	(4,890.4)	(2,327.7)	(579.4)	(820.7)	(18,368.4)	(10,168.8)	(13,507.2)	(15,660.0)	(2,256.0)	(669.7)	(100.1)	(422.3)	(17,287.2)	(10,642.8)	(6,653.2)	(3,289.1)	(5,786.4)	(10,203.6)	(69,418.3)	(54,199.7)
Total entire World	57,829.3	52,406.6	18,841.6	15,316.6	115,382.4	92,360.8	156,791.1	178,082.3	9,968.4	4,286.4	9,688.2	8,085.2	86,923.6	73,380.0	62,586.6	66,231.4	98,676.6	97,221.6	614,676.8	587,382.9

^aThe Federal Republic of Germany's total trade and its trade with Eastern Europe have been adjusted to include trade with the German Democratic Republic which usually is not published in official trade statistics. The data for 1982 are the following

FRG's and West Berlin's imports from the GDR	\$millions 2,732.3
FRG's and West Berlin's exports to the GDR	2,626.7

^bTotal trading countries on this table

^cTotal of countries listed above, except Ireland.

^dTotal European NATO plus the US and Canada.

^eTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

Table II. Trade of EC Countries, 1982
(As percentage of total trade of each country)

Trading Country or Area	Belgium-Luxembourg		Denmark		France		Fed. Rep. of Germany ^a		Greece		Ireland		Italy		Netherlands		UK		Total EC of Ten ^b	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	—	—	2.7	1.8	7.7	8.6	6.7	7.1	2.4	1.7	2.2	4.5	3.2	2.9	11.0	14.2	5.0	4.1	5.7	6.3
Denmark	0.5	1.0	—	—	0.7	0.7	1.7	2.0	1.0	0.8	0.8	0.7	0.9	0.7	1.0	1.7	2.3	2.0	1.3	1.4
France	13.9	19.4	4.1	5.5	—	—	11.3	13.9	7.1	6.9	4.6	8.7	12.5	15.2	6.5	10.4	7.5	8.1	8.1	10.7
Fed. Rep. of Germany	20.0	20.5	20.5	17.4	16.8	14.8	—	—	17.1	19.0	7.7	9.3	16.1	15.6	22.2	29.5	13.0	9.7	12.6	11.8
Greece	0.2	0.5	0.2	0.9	0.4	1.0	0.7	1.1	—	—	0.1	0.4	0.6	1.8	0.3	1.1	0.3	0.5	0.4	1.0
Ireland	0.4	0.4	0.3	0.5	0.6	0.5	0.5	0.4	0.3	0.2	—	—	0.3	0.3	0.6	0.5	3.5	5.2	1.0	1.2
Italy	3.6	5.0	3.1	5.0	9.6	11.3	7.6	7.5	9.2	8.8	2.6	2.9	—	—	3.0	5.5	4.8	3.6	5.4	6.0
Netherlands	17.6	14.2	7.1	3.5	5.5	4.6	12.1	8.4	5.4	4.1	3.8	5.2	4.3	3.1	—	—	7.9	8.4	8.0	6.5
UK	7.0	9.7	10.8	14.1	6.1	7.2	7.1	7.1	3.7	4.8	48.1	38.8	4.0	6.3	9.4	9.3	—	—	6.2	6.9
Total EC of Ten	63.2	70.6	48.8	48.6	47.5	48.7	47.6	47.4	46.2	46.3	69.9	70.5	41.9	45.9	54.0	72.2	44.3	41.6	48.7	51.7
Iceland	insig	insig	0.1	0.7	insig	insig	insig	0.1	0.1	—	insig	insig	insig	insig	insig	0.1	0.1	0.2	insig	0.1
Norway	1.1	0.6	3.7	6.5	1.2	0.6	2.6	1.3	0.2	0.1	0.3	0.6	0.3	0.4	1.5	0.9	3.8	1.7	1.9	1.1
Portugal	0.2	0.4	0.4	0.4	0.5	0.9	0.4	0.6	0.1	0.3	0.3	0.3	0.7	0.3	0.5	0.7	0.6	0.6	0.4	0.7
Spain	0.9	1.1	0.8	1.0	3.1	3.2	1.3	1.8	1.1	0.9	1.1	1.5	1.4	1.9	1.3	1.0	1.8	1.7	1.7	1.8
Turkey	0.1	0.3	0.1	0.1	0.2	0.3	0.4	0.6	0.2	0.2	0.1	insig	0.4	0.6	0.2	0.2	0.4	0.4	0.3	0.4
Total European NATO^c	65.1	72.6	53.6	56.7	51.9	53.2	51.9	51.3	47.7	47.6	71.7	73.0	43.9	48.3	56.6	74.4	47.3	41.2	52.1	54.6
Austria	0.4	0.7	1.1	0.8	0.6	0.8	2.9	4.8	1.6	0.9	0.4	0.5	1.7	2.2	0.6	0.9	0.7	0.5	1.4	2.1
Finland	0.3	0.4	4.1	2.2	0.5	0.4	0.8	1.0	0.7	0.2	0.8	0.5	0.3	0.4	0.7	0.5	1.5	0.9	0.8	0.7
Sweden	1.6	1.5	11.7	10.9	1.5	1.1	2.0	2.6	1.0	0.5	1.5	1.4	1.1	1.0	1.9	1.8	2.9	3.5	2.1	2.3
Switzerland	2.3	3.2	1.8	2.1	2.0	4.0	3.2	4.9	1.2	0.8	1.1	1.0	3.4	4.0	1.2	2.1	2.9	2.2	2.6	3.6
Total European OECD	70.2	78.8	72.7	73.2	57.0	60.0	61.3	65.0	62.6	60.2	75.5	76.3	60.7	67.2	61.7	80.3	66.9	63.4	68.9	64.5
US	7.0	4.4	7.1	6.0	7.9	5.7	7.4	6.5	4.2	8.9	12.9	7.1	6.8	7.1	9.2	3.2	11.7	13.5	8.3	7.1
Canada	0.7	0.4	0.5	0.7	0.7	0.8	0.9	0.6	0.5	0.3	1.2	1.2	0.9	0.8	0.8	0.3	2.5	1.5	1.1	0.7
Total NATO^d	72.9	77.4	61.2	63.4	60.5	66.6	60.1	68.4	62.3	66.8	85.7	61.3	51.5	67.1	68.6	78.0	61.6	66.2	61.4	62.4
Japan	1.9	0.6	3.1	1.6	2.6	1.2	3.3	1.2	6.3	0.6	2.9	1.3	1.3	1.1	2.1	0.5	4.7	1.2	2.9	1.1
Australia	0.3	0.2	0.1	0.5	0.5	0.5	0.4	0.7	0.2	0.5	insig	1.1	0.5	0.7	0.3	0.3	0.9	1.9	0.5	0.8
New Zealand	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	insig	0.1	0.1	0.1	0.1	0.1	0.1	0.9	0.6	0.2	0.2
Total OECD^e	80.2	84.6	63.5	62.1	66.9	68.1	73.4	74.1	64.2	80.5	82.7	67.2	60.2	68.9	74.1	84.7	79.6	72.1	72.9	74.3
USSR	2.5	1.0	1.9	0.6	2.5	1.7	2.9	2.2	2.2	3.3	0.6	0.5	4.1	2.1	4.1	0.6	1.1	0.6	2.7	1.5
Other European CEMA	0.7	0.7	2.3	1.0	1.3	1.4	3.8	3.5	3.1	4.4	0.8	0.3	1.9	1.3	1.1	0.9	0.9	0.9	1.9	1.8
Total European CEMA	3.2	1.7	4.3	1.6	3.7	3.0	6.7	5.7	5.3	7.7	1.3	0.8	6.0	3.3	5.2	1.5	2.0	1.6	4.8	3.3
China	0.2	0.4	0.3	0.9	0.4	0.4	0.4	0.5	0.2	0.1	0.1	0.1	0.5	0.3	0.3	0.1	0.3	0.2	0.4	0.3
Rest of World of which OPEC	16.4 (8.4)	13.3 (4.4)	11.8 (3.4)	15.4 (5.4)	27.0 (15.9)	28.5 (11.0)	19.5 (8.6)	19.7 (8.8)	30.3 (22.6)	31.7 (15.6)	5.9 (1.0)	11.9 (5.2)	33.2 (20.1)	29.6 (14.5)	20.3 (10.6)	13.7 (5.0)	18.1 (5.8)	26.2 (10.5)	22.1 (11.3)	22.0 (9.2)
Total entire World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aThe Federal Republic of Germany's total trade and its trade with Eastern Europe have been adjusted to include trade with the German Democratic Republic which usually is not published in official trade statistics. The data for 1982 are the following:

\$ millions
FRG's and West Berlin's imports from the GDR 2,732.3
FRG's and West Berlin's exports to the GDR 2,626.7

^bTotal trading countries on this table.

^cTotal of countries listed above, except Ireland.

^dTotal European NATO plus the US and Canada.

^eTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

Table III. Trade of European NATO Countries, 1982
(Value in millions of dollars, imports c.i.f., exports f.o.b.)

Origin or Destination	Iceland		Norway		Portugal		Spain ^a		Turkey ^b		Total European NATO ^c	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	25.8	10.6	359.5	187.1	230.1	129.0	447.0	490.4	138.5	84.0	35,884.7	37,393.3
Denmark	90.2	12.0	956.5	656.6	50.2	69.6	145.0	110.0	25.4	10.4	8,924.1	9,101.8
France	24.6	19.7	521.4	388.6	815.1	548.8	2,526.1	3,370.0	241.4	196.6	53,537.4	66,553.2
Fed Rep. of Germany	115.1	48.6	2,401.0	3,513.4	1,111.7	541.2	2,993.5	1,689.4	1,009.3	679.9	84,409.8	74,772.5
Greece	0.1	9.3	12.2	70.4	16.5	13.2	82.0	78.8	13.7	101.5	2,789.2	6,086.4
Ireland	2.1	0.9	41.5	28.3	24.4	19.9	141.7	75.5	1.5	4.0	6,080.0	7,150.6
Italy	23.4	26.1	362.0	245.2	520.2	200.8	1,416.7	1,158.6	409.5	308.8	35,883.6	36,674.5
Netherlands	69.2	6.5	528.6	1,110.4	332.2	249.8	591.4	1,000.4	157.6	97.8	50,491.6	40,129.8
UK	82.2	90.6	1,831.0	6,418.8	730.8	618.7	1,557.6	1,465.7	415.4	206.0	38,247.9	46,233.3
Total EC of Ten	432.7	224.3	7,013.7	12,618.8	3,831.2	2,391.0	9,901.0	9,438.8	2,412.3	1,689.0	316,248.3	324,096.4
Iceland	--	--	6.1	68.4	100.7	20.8	28.1	8.5	--	--	405.3	614.2
Norway	70.6	5.1	--	--	53.4	74.2	93.6	81.8	29.2	2.9	11,789.5	6,818.0
Portugal	21.7	80.9	82.7	50.3	--	--	150.6	572.0	3.0	23.6	2,746.1	4,546.0
Spain	9.5	28.0	109.4	85.7	567.1	151.7	--	--	100.4	30.4	10,932.5	10,875.1
Turkey	0.1	0.1	5.5	39.5	45.4	17.5	86.2	128.6	--	--	1,902.3	2,589.4
Total European NATO	632.5	337.5	7,176.9	12,834.4	4,573.4	2,635.3	10,117.8	10,154.2	2,643.4	1,741.9	337,944.0	342,387.5
Austria	6.6	0.5	168.7	52.1	55.7	44.1	141.5	61.7	111.1	95.6	8,873.1	12,568.1
Finland	23.5	10.5	689.4	280.8	35.8	69.3	119.0	73.0	27.5	4.2	5,956.6	4,705.3
Sweden	78.0	9.6	2,641.1	1,583.9	185.3	163.5	379.7	197.2	89.0	20.1	16,169.9	15,522.2
Switzerland	8.8	24.3	235.1	100.4	214.6	137.7	567.2	317.4	299.4	285.8	17,074.4	21,793.4
Total European OECD	661.5	383.3	10,961.7	14,879.9	5,089.2	3,088.8	11,488.9	10,879.0	3,071.9	2,151.6	382,087.0	404,127.1
US	79.6	177.2	1,417.1	483.4	1,018.8	257.5	4,387.7	1,324.7	780.1	230.2	57,288.8	43,310.8
Canada	5.4	3.8	209.8	70.8	58.6	34.4	189.8	138.1	59.2	8.3	6,985.7	4,551.2
Total NATO^d	617.5	518.3	8,802.8	13,388.6	5,851.0	2,927.2	14,885.3	11,617.0	3,382.7	1,980.4	402,218.5	380,268.5
Japan	44.3	22.2	947.0	144.1	315.9	37.9	1,006.3	257.6	314.3	26.1	20,208.1	6,556.0
Australia	15.5	0.4	68.9	34.6	39.2	14.2	129.2	65.4	14.2	2.0	3,158.0	4,645.6
New Zealand	5.1	insig	7.9	5.5	6.7	2.4	23.0	11.9	1.1	0.4	1,515.4	1,007.4
Total OECD^e	801.4	586.7	13,812.4	16,618.3	6,528.6	3,416.2	17,222.9	12,676.7	4,240.8	2,418.8	481,283.0	484,186.1
USSR	86.2	51.8	225.6	98.8	101.0	52.5	493.0	219.8	113.0	133.6	17,610.3	9,300.7
Other European CEMA	11.0	6.0	347.3	113.6	38.7	33.9	367.2	219.6	318.6	172.0	12,792.0	11,189.4
Total European CEMA	97.2	57.8	572.9	210.4	139.7	86.4	860.2	439.4	431.6	305.6	30,402.3	20,480.1
China	1.7	0.7	31.2	50.9	9.7	6.6	99.2	113.6	2.5	23.1	2,456.3	2,193.4
Rest of World	42.5	41.2	1,235.8	1,665.2	2,746.6	667.4	13,433.1	7,344.1	3,853.2	2,817.9	156,845.2	140,938.9
of which OPEC	(0.3)	(28.0)	(149.3)	(273.6)	(1,824.7)	(121.6)	(8,436.4)	(3,074.9)	(3,458.9)	(2,203.4)	(83,086.8)	(59,478.9)
Total entire World	942.8	686.4	16,462.3	17,544.8	9,424.8	4,176.6	31,616.4	20,573.8	8,833.1	5,685.2	670,985.8	627,820.5

^aSpain became a member of NATO in May 1982.

^bEstimated by the International Monetary Fund.

^cTotal EC except Ireland, plus trading countries listed on this table.

^dTotal European NATO plus the US and Canada.

^eTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

Table IV. Trade of European NATO Countries, 1982
(As percentage of total trade of each country)

Trading Country or Area Origin or Destination	Iceland		Norway		Portugal		Spain ^a		Turkey ^b		Total European NATO ^c	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	2.7	1.5	2.3	1.1	2.4	3.1	1.4	2.4	1.6	1.5	5.3	6.0
Denmark	9.6	1.7	6.2	3.7	0.5	1.6	0.5	0.5	0.3	0.2	1.3	1.4
France	2.6	2.9	3.4	2.2	8.6	13.1	8.0	16.4	2.8	3.5	8.0	10.6
Fed. Rep. of Germany	12.2	7.1	15.5	20.0	11.8	13.0	9.5	8.2	11.8	12.2	12.6	11.9
Greece	insig	1.4	0.1	0.4	0.2	0.3	0.3	0.4	0.2	1.8	0.4	1.0
Ireland	0.2	0.1	0.3	0.2	0.3	0.5	0.4	0.4	insig	0.1	0.9	1.1
Italy	2.5	3.8	2.3	1.4	5.5	4.8	4.5	5.6	4.8	5.5	5.3	5.8
Netherlands	7.3	0.9	3.4	6.3	3.5	6.0	1.9	4.9	1.8	1.8	7.5	6.4
UK	8.7	13.2	11.8	36.6	7.8	14.8	4.9	7.1	4.9	3.7	5.7	7.4
Total EC of Ten	45.9	32.7	45.4	71.9	40.7	57.2	31.3	45.9	28.3	30.3	47.1	51.6
Iceland	—	—	insig	0.4	1.1	0.5	0.1	insig	—	—	0.1	0.1
Norway	7.5	0.7	—	—	0.6	1.8	0.3	0.4	0.3	0.1	1.8	1.1
Portugal	2.3	11.8	0.5	0.3	—	—	0.5	2.8	insig	0.4	0.4	0.7
Spain	1.0	4.1	0.7	0.5	6.0	3.6	—	—	1.2	0.5	1.6	1.7
Turkey	insig	insig	insig	0.2	0.5	0.4	0.3	0.6	—	—	0.3	0.4
Total European NATO	58.5	49.2	46.4	73.2	48.5	63.1	32.0	49.4	29.8	31.3	50.4	54.5
Austria	0.7	0.1	1.1	0.3	0.6	1.1	0.4	0.3	1.3	1.7	1.3	2.0
Finland	2.5	1.5	4.5	1.6	0.4	1.7	0.4	0.4	0.3	0.1	0.9	0.7
Sweden	8.3	1.4	17.1	9.0	2.0	3.9	1.2	1.0	1.0	0.4	2.4	2.5
Switzerland	0.9	3.5	1.5	0.6	2.3	3.3	1.9	1.5	3.5	5.1	2.5	3.5
Total European OECD	69.1	55.8	70.9	84.8	54.0	73.5	36.3	52.9	38.0	38.7	58.4	64.4
US	8.4	25.8	9.2	2.8	10.8	6.2	13.9	6.4	9.1	4.1	8.5	6.9
Canada	0.6	0.5	1.4	0.4	0.6	0.8	0.6	0.7	0.7	0.1	1.0	0.7
Total NATO^d	66.5	76.5	57.0	76.3	60.0	70.1	46.5	56.5	39.6	36.6	59.9	62.2
Japan	4.7	3.2	6.1	0.8	3.4	0.9	3.2	1.3	3.7	0.5	3.0	1.0
Australia	1.6	0.1	0.4	0.2	0.4	0.3	0.4	0.3	0.2	insig	0.5	0.7
New Zealand	0.5	insig	0.1	insig	0.1	0.1	0.1	0.1	insig	insig	0.2	0.2
Total OECD^e	65.0	65.5	68.1	89.0	69.3	81.8	54.5	61.6	49.7	43.5	71.7	73.9
USSR	9.1	7.5	1.5	0.6	1.1	1.3	1.6	1.1	1.4	2.4	2.6	1.5
Other European CEMA	1.2	0.9	2.2	0.6	0.4	0.8	1.2	1.1	3.7	3.1	1.9	1.8
Total European CEMA	10.3	8.4	3.7	1.2	1.5	2.1	2.7	2.1	5.1	5.5	4.5	3.3
China	0.2	0.1	0.2	0.3	0.1	0.2	0.3	0.6	insig	0.4	0.4	0.3
Rest of World	4.5	6.0	8.0	9.5	29.1	16.0	42.5	35.7	45.2	50.6	23.4	22.4
of which OPEC	(insig)	(4.1)	(1.0)	(1.6)	(19.4)	(2.9)	(26.7)	(14.9)	(40.5)	(39.6)	(12.4)	(9.5)
Total entire World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aSpain became a member of NATO in May 1982.

^bEstimated by the International Monetary Fund.

^cTotal EC except Ireland, plus trading countries listed on this table.

^dTotal European NATO plus the US and Canada.

^eTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

Table V. Trade of European OECD Countries, 1982
(Value in millions of dollars, imports c.i.f., exports f.o.b.)

Trading Country or Area Origin or Destination	Austria		Finland		Sweden		Switzerland		Total European OECD ^a	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	379.0	241.8	238.2	180.4	842.2	955.2	1,155.2	691.7	38,709.9	39,824.2
Denmark	123.7	178.2	312.1	473.5	1,592.5	2,067.6	255.0	302.6	11,286.1	12,178.7
France	754.7	660.0	419.8	515.9	1,113.8	1,515.6	3,278.9	2,329.4	59,553.0	72,277.9
Fed. Rep. of Germany	7,910.4	4,588.1	1,781.4	1,182.5	4,772.9	2,798.3	8,502.1	4,714.8	108,119.4	88,812.1
Greece	64.3	126.5	10.2	70.9	40.8	118.0	37.0	208.3	2,951.8	6,645.9
Ireland	41.2	31.3	42.6	83.8	115.0	145.7	97.4	75.8	6,378.2	7,487.2
Italy	1,683.4	1,421.3	354.4	235.3	860.6	836.9	2,823.7	1,957.1	41,880.9	41,381.5
Netherlands	538.2	379.9	355.7	399.6	1,251.5	1,330.9	1,231.7	615.6	54,235.9	43,278.6
UK	427.2	676.2	977.6	1,416.7	3,388.8	2,683.8	1,566.6	1,609.6	49,264.5	55,755.7
Total EC of Ten	11,922.1	8,303.3	4,492.0	4,668.6	13,978.1	12,462.0	18,947.6	12,504.9	372,367.7	367,619.8
Iceland	1.3	5.2	15.5	19.4	12.8	72.2	22.4	8.4	457.7	721.0
Norway	63.5	151.4	287.4	634.6	1,977.8	2,827.8	82.8	216.4	14,232.8	10,694.2
Portugal	56.5	57.2	75.8	29.8	181.9	178.0	82.9	219.0	3,174.8	5,054.5
Spain	86.4	135.1	94.1	110.0	233.0	373.9	322.7	622.4	11,770.8	12,240.2
Turkey	53.9	92.4	7.2	31.8	45.8	89.6	58.7	181.7	2,075.3	2,986.6
Total European NATO^b	12,142.6	8,713.3	4,929.4	5,300.4	16,314.4	15,847.8	19,419.7	13,677.0	367,882.9	361,830.1
Austria	-	-	167.3	87.6	368.4	313.9	1,060.7	1,054.8	10,504.8	14,051.4
Finland	102.0	156.0	-	-	1,589.8	1,738.0	157.6	217.6	7,867.0	6,869.6
Sweden	341.4	360.7	1,632.7	1,566.5	-	-	539.9	509.3	18,833.7	18,071.6
Switzerland	933.2	1,096.7	219.8	174.0	520.2	503.0	-	-	18,850.4	23,046.6
Total European OECD	13,580.3	10,368.0	6,991.8	7,211.3	18,887.8	18,548.4	21,276.3	15,534.5	480,125.0	461,954.3
US	734.4	460.2	821.0	416.9	2,359.2	1,904.0	2,054.5	2,027.0	64,504.1	48,686.6
Canada	88.6	75.2	118.9	91.4	182.8	289.7	142.2	255.4	7,636.6	5,361.3
Total NATO^c	12,985.6	9,248.7	5,889.3	5,808.7	18,856.4	18,041.5	21,618.4	15,968.4	488,833.6	446,887.0
Japan	549.0	137.3	565.0	140.6	1,018.7	329.5	1,057.7	672.5	23,883.7	7,938.9
Australia	23.4	56.6	30.1	109.4	58.7	287.8	50.0	202.4	3,324.0	5,382.3
New Zealand	13.9	9.2	8.4	7.2	12.6	30.7	13.2	33.8	1,576.9	1,088.9
Total OECD^d	14,989.6	11,098.6	8,535.2	7,976.8	22,519.6	21,380.1	24,582.9	18,725.6	680,850.3	630,442.3
USSR	988.7	551.6	3,298.3	3,486.6	796.7	353.2	829.2	215.4	23,577.0	13,950.2
Other European CEMA	1,176.1	1,185.4	430.2	275.2	757.0	458.8	301.1	582.7	15,532.0	13,721.8
Total European CEMA	2,164.8	1,737.0	3,728.5	3,761.8	1,553.7	812.0	1,130.3	808.1	39,109.0	27,672.0
China	29.3	55.8	30.6	40.1	87.2	59.8	72.0	129.7	2,886.2	2,483.2
Rest of World of which OPEC	2,330.4 (1,039.6)	2,754.1 (1,198.8)	1,133.3 (433.2)	1,291.6 (618.6)	3,469.2 (1,759.9)	4,474.7 (1,915.1)	2,801.4 (982.9)	6,273.0 (2,287.8)	167,136.7 (67,502.5)	156,898.9 (66,921.5)
Total entire World	19,484.1	15,843.4	13,427.6	13,070.3	27,619.9	26,736.6	28,586.6	25,938.4	789,782.2	717,296.4

^aTotal European NATO plus Ireland, plus trading countries listed on this table.

^bTotal of countries listed above, except Ireland.

^cTotal European NATO plus the US and Canada.

^dTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

Table VI. Trade of European OECD Countries, 1982
(As percentage of total trade of each country)

Trading Country or Area Origin or Destination	Austria		Finland		Sweden		Switzerland		Total European OECD ^a	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	1.9	1.5	1.8	1.4	3.0	3.6	4.0	2.7	5.0	5.6
Denmark	0.6	1.1	2.3	3.6	5.8	7.7	0.9	1.2	1.5	1.7
France	3.9	4.2	3.1	3.9	4.0	5.7	11.5	9.0	7.7	10.1
Fed. Rep. of Germany	40.6	29.3	13.3	9.0	17.3	10.5	29.7	18.2	14.0	12.4
Greece	0.3	0.8	0.1	0.5	0.1	0.4	0.1	0.8	0.4	0.9
Ireland	0.2	0.2	0.3	0.6	0.4	0.5	0.3	0.3	0.8	1.0
Italy	8.6	9.1	2.6	1.8	3.1	3.1	9.9	7.5	6.4	5.8
Netherlands	2.8	2.4	2.6	3.1	4.5	5.0	4.3	2.4	7.0	6.0
UK	2.2	4.3	7.3	10.8	12.3	10.0	5.5	6.2	6.4	7.8
Total EC of Ten	61.2	53.1	33.5	34.9	50.6	46.6	66.3	48.2	48.4	51.3
Iceland	insig	insig	0.1	0.1	insig	0.3	0.1	insig	0.1	0.1
Norway	0.3	1.0	2.1	4.9	7.2	10.6	0.3	0.8	1.8	1.5
Portugal	0.3	0.4	0.6	0.2	0.7	0.7	0.3	0.8	0.4	0.7
Spain	0.4	0.9	0.7	0.8	0.8	1.4	1.1	2.4	1.5	1.7
Turkey	0.3	0.6	0.1	0.2	0.2	0.3	0.2	0.7	0.3	0.4
Total European NATO^b	62.3	55.7	36.7	40.6	59.1	59.3	67.9	52.7	51.7	54.6
Austria	—	—	1.2	0.7	1.3	1.2	3.7	4.1	1.4	2.0
Finland	0.5	1.0	—	—	5.7	6.5	0.6	0.8	1.0	1.0
Sweden	1.8	2.3	12.2	12.0	—	—	1.9	2.0	2.4	2.5
Switzerland	4.8	7.0	1.6	1.3	1.9	1.9	—	—	2.4	3.3
Total European OECD	69.6	66.2	52.1	55.2	68.4	69.4	74.4	59.9	59.8	64.4
US	3.8	2.9	6.1	3.2	8.5	7.1	7.2	7.8	8.4	6.8
Canada	0.5	0.5	0.9	0.7	0.7	1.1	0.5	1.0	1.0	0.7
Total NATO^c	66.5	59.1	43.7	44.4	68.3	67.5	75.6	61.5	61.0	62.2
Japan	2.8	0.9	4.2	1.1	3.7	1.2	3.7	2.6	3.1	1.1
Australia	0.1	0.4	0.2	0.8	0.2	1.1	0.2	0.8	0.4	0.8
New Zealand	0.1	0.1	0.1	0.1	insig	0.1	insig	0.1	0.2	0.2
Total OECD^d	76.8	70.9	63.6	61.0	81.5	80.0	86.0	72.2	72.9	74.0
USSR	5.1	3.5	24.6	26.7	2.9	1.3	2.9	0.8	3.1	1.9
Other European CEMA	6.0	7.6	3.2	2.1	2.7	1.7	1.1	2.3	2.0	1.9
Total European CEMA	11.1	11.1	27.8	28.8	5.6	3.0	4.0	3.1	5.1	3.9
China	0.2	0.4	0.2	0.3	0.3	0.2	0.3	0.5	0.3	0.3
Rest of World	12.0	17.6	8.4	9.9	12.5	16.7	9.8	24.2	21.7	21.8
of which OPEC	(5.3)	(7.7)	(3.2)	(4.7)	(6.4)	(7.2)	(3.4)	(8.8)	(11.4)	(9.2)
Total entire World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aTotal European NATO plus Ireland, plus trading countries listed on this table.

^bTotal of countries listed above, except Ireland.

^cTotal European NATO plus the US and Canada.

^dTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

Table VII. Trade of the US, Canada, Japan, Australia, New Zealand, Total NATO, and Total OECD, 1982
(Value in millions of dollars, imports c.i.f., exports f.o.b.)

Origin or Destination	Trading Country or Area	US		Canada		Total NATO ^a		Japan		Australia ^b		New Zealand ^c		Total OECD ^d	
		Imports ^e	Exports	Imports ^e	Exports	Imports	Exports	Imports	Exports	Imports ^e	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg		2,396.4	5,229.6	213.5	640.9	38,494.6	43,263.8	337.2	1,155.6	145	128	34.5	43.9	41,836.5	47,022.2
Denmark		904.8	732.0	104.6	69.7	9,933.5	9,903.5	261.6	434.4	78	15	21.3	9.1	12,656.4	13,438.9
France		5,545.2	7,110.0	711.0	611.3	59,793.6	74,274.5	1,206.0	2,310.0	595	489	67.9	84.9	67,678.1	82,883.1
Fed. Rep. of Germany		11,974.8	9,291.6	1,122.0	1,043.0	97,506.6	85,107.1	2,342.4	4,982.4	1,456	560	244.5	102.3	125,259.1	104,791.4
Greece		242.4	721.2	24.6	62.4	3,056.2	6,870.0	37.2	582.0	21	26	2.4	50.8	3,279.4	8,088.3
Ireland		566.8	984.0	104.4	79.9	6,741.2	8,214.5	183.6	201.6	92	2	10.8	8.0	7,324.6	8,782.7
Italy		5,301.8	4,816.4	587.4	589.3	41,772.8	41,860.2	940.8	860.4	561	409	81.7	90.2	49,323.4	47,906.8
Netherlands		2,483.8	8,804.0	218.6	900.4	53,201.8	49,634.2	344.4	1,857.2	369	251	64.8	58.6	57,724.3	54,747.8
UK		13,084.4	10,645.2	1,540.6	2,208.8	52,862.9	59,087.3	1,838.4	4,776.0	1,752	965	521.1	800.3	68,011.0	75,151.0
Total EC of Ten		42,510.0	47,934.0	4,624.7	6,185.7	363,363.0	378,215.1	7,481.6	18,959.6	6,059	2,846	1,049.8	1,248.1	433,082.8	442,782.2
Iceland		183.8	78.0	4.0	5.2	592.9	697.4	26.4	27.6	—	—	—	1.0	671.7	832.8
Norway		1,972.8	950.4	75.1	207.7	13,837.4	7,976.1	175.2	814.8	48	111	11.9	3.6	16,515.8	12,781.7
Portugal		285.6	840.0	35.4	98.9	3,067.1	5,484.9	49.2	260.4	22	35	3.5	4.4	3,570.5	6,293.2
Spain		1,508.4	3,569.2	154.0	169.4	12,594.9	14,633.7	364.8	819.8	71	92	16.0	16.9	13,886.0	16,927.3
Turkey		273.8	887.6	9.5	89.8	2,186.4	3,566.6	39.6	214.8	4	14	0.7	0.5	2,402.7	4,183.1
Total European NATO^f		48,177.2	53,275.2	4,798.3	6,678.6	388,919.5	402,349.3	7,983.2	18,895.2	5,112	3,086	1,070.3	1,288.5	462,813.9	476,047.6
Austria		490.8	370.8	74.5	35.2	9,438.4	12,964.1	151.2	338.4	59	2	10.8	6.4	11,291.1	14,804.2
Finland		414.0	489.6	78.1	91.7	6,447.7	5,286.6	188.0	406.6	129	23	9.7	3.3	8,865.8	7,873.9
Sweden		1,982.0	1,889.8	296.4	161.8	18,458.3	17,373.6	351.6	747.6	301	49	45.5	4.5	21,820.2	20,724.0
Switzerland		2,340.0	2,707.2	348.1	199.4	19,762.5	24,700.0	1,197.6	1,014.0	218	22	42.4	10.2	22,986.5	27,588.4
Total European OECD		51,970.8	58,518.4	5,608.8	7,244.8	448,787.8	470,888.1	10,016.2	21,603.6	5,911	3,183	1,180.3	1,298.9	534,912.1	554,810.8
US		—	—	38,716.9	46,896.3	98,005.7	90,007.1	24,100.8	36,508.8	5,264	2,248	901.8	795.3	133,487.6	134,946.0
Canada		46,477.2	33,720.0	—	—	53,462.9	38,271.2	4,416.0	2,846.4	546	347	135.7	104.3	59,211.5	42,379.0
Total NATO^a		92,654.4	68,985.2	43,616.2	53,372.9	638,388.1	630,827.8	38,480.0	68,260.4	10,822	5,880	2,107.8	2,188.1	685,513.0	682,371.6
Japan		37,743.6	20,988.4	2,869.0	3,722.8	60,810.7	31,245.2	—	—	4,865	5,703	1,053.2	703.6	70,204.5	39,034.7
Australia		2,287.2	4,534.8	367.4	567.6	5,802.8	9,748.0	6,944.4	4,568.8	—	—	1,147.7	754.5	14,080.7	15,808.0
New Zealand		774.0	897.6	113.9	128.6	2,403.3	2,034.8	854.4	925.2	730	1,130	—	—	4,048.2	4,181.3
Total OECD^d		138,252.8	119,636.8	47,747.0	58,380.9	888,252.8	842,184.2	48,330.8	68,442.8	17,316	12,821	4,428.7	3,866.8	818,825.6	791,188.8
USSR		228.0	2,593.2	34.7	1,679.4	17,873.0	13,573.3	1,954.8	3,885.6	13	693	9.0	249.6	25,518.5	23,051.0
Other European CEMA		836.4	989.6	141.5	356.4	13,789.9	12,545.4	194.4	574.8	80	158	48.1	24.2	16,632.4	15,834.8
Total European CEMA		1,064.4	3,882.8	176.2	2,035.8	31,662.9	26,118.7	1,849.2	4,460.4	93	851	57.1	273.8	42,348.9	38,885.8
China		2,283.6	2,912.4	185.1	1,000.0	4,904.0	6,105.8	5,328.8	3,500.4	319	838	41.8	68.8	10,822.5	10,822.8
Rest of World		101,350.8	88,134.8	6,730.3	7,017.7	284,928.3	234,091.4	77,817.2	63,852.0	6,346	7,767	1,385.0	1,482.6	380,585.0	322,863.0
of which OPEC		(31,208.4)	(22,862.4)	(2,538.1)	(2,130.8)	(116,933.3)	(84,472.1)	(48,238.8)	(21,757.2)	(2,704)	(1,536)	(528.6)	(305.6)	(172,718.4)	(114,512.5)
Total entire World		243,851.8	212,275.2	54,818.6	68,414.4	989,728.0	908,510.1	131,124.0	138,285.6	24,073	22,077	5,812.6	5,511.8	1,229,862.0	1,163,830.4

^aTotal European NATO plus the US and Canada.

^bData for Australia were available only in rounded millions.

^cEstimated by the International Monetary Fund.

^dTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

^ef.o.b.

^fTotal of countries listed above, except Ireland.

Table VIII. Trade of the US, Canada, Japan, Australia, New Zealand, Total NATO, and Total OECD, 1982
(As percentage of total trade of each country)

Origin or Destination	US		Canada		Total NATO ^a		Japan		Australia ^b		New Zealand ^c		Total OECD ^d	
	Imports ^e	Exports	Imports ^e	Exports	Imports	Exports	Imports	Exports	Imports ^e	Exports	Imports	Exports	Imports	Exports
Belgium-Luxembourg	1.0	2.5	0.4	0.9	4.0	4.8	0.3	0.8	0.6	0.6	0.6	0.8	3.4	4.0
Danmark	0.4	0.3	0.2	0.1	1.0	1.1	0.2	0.3	0.3	0.1	0.4	0.2	1.0	1.2
France	2.3	3.3	1.3	0.9	6.2	8.2	0.9	1.7	2.5	2.2	1.1	1.5	5.5	7.1
Fed. Rep. of Germany	4.9	4.4	2.0	1.5	10.1	9.4	1.8	3.6	6.0	2.5	4.1	1.9	10.2	9.0
Greece	0.1	0.3	insig	0.1	0.3	0.8	insig	0.4	0.1	0.1	insig	0.9	0.3	0.7
Ireland	0.2	0.5	0.2	0.1	0.7	0.9	0.1	0.1	0.4	insig	0.2	0.1	0.6	0.8
Italy	2.2	2.2	1.1	0.8	4.3	4.6	0.7	0.6	2.3	1.9	1.4	1.6	4.0	4.1
Netherlands	1.0	4.1	0.4	1.3	5.5	5.5	0.3	1.2	1.5	1.1	1.1	1.1	4.7	4.7
UK	5.4	5.0	2.8	3.2	5.5	6.5	1.4	3.5	7.3	4.4	8.8	14.5	5.5	6.5
Total EC of Ten	17.4	22.6	8.4	9.0	37.5	41.6	5.7	12.3	20.0	12.9	17.8	22.6	36.2	38.0
Iceland	0.1	insig	insig	insig	0.1	0.1	insig	insig	—	—	—	insig	0.1	0.1
Norway	0.8	0.4	0.1	0.3	1.4	0.9	0.1	0.6	0.2	0.5	0.2	0.1	1.3	1.1
Portugal	0.1	0.4	0.1	0.1	0.3	0.6	insig	0.2	0.1	0.2	0.1	0.1	0.3	0.5
Spain	0.6	1.7	0.3	0.2	1.3	1.6	0.3	0.6	0.3	0.4	0.3	0.3	1.1	1.5
Turkey	0.1	0.4	insig	0.1	0.2	0.4	insig	0.2	insig	0.1	insig	insig	0.2	0.4
Total European NATO^f	18.9	25.1	8.8	9.8	40.1	44.3	6.1	13.7	21.2	14.0	18.1	23.0	37.8	40.8
Austria	0.2	0.2	0.1	0.1	1.0	1.4	0.1	0.2	0.2	insig	0.2	0.1	0.9	1.3
Finland	0.2	0.2	0.1	0.1	0.7	0.6	0.1	0.3	0.5	0.1	0.2	0.1	0.7	0.7
Sweden	0.8	0.8	0.5	0.2	1.9	1.9	0.3	0.5	1.3	0.2	0.8	0.1	1.8	1.8
Switzerland	1.0	1.3	0.6	0.3	2.0	2.7	0.9	0.7	0.9	0.1	0.7	0.2	1.9	2.4
Total European OECD	21.3	28.0	10.4	10.6	48.4	51.8	7.8	15.6	24.6	14.5	20.1	23.6	43.5	47.7
US	—	—	70.6	68.3	9.9	9.9	18.4	26.4	21.9	10.2	15.3	14.4	10.9	11.6
Canada	19.1	15.9	—	—	5.5	4.2	3.4	2.1	2.3	1.6	2.3	1.9	4.8	3.6
Total NATO^a	38.0	41.0	79.4	78.0	55.5	58.4	27.8	42.1	46.4	26.8	36.6	39.3	53.3	58.1
Japan	15.5	9.9	5.2	5.4	6.3	3.4	—	—	20.2	25.8	17.8	12.8	5.7	3.4
Australia	0.9	2.1	0.7	0.8	0.6	1.1	5.3	3.3	—	—	19.4	13.7	1.1	1.4
New Zealand	0.3	0.4	0.2	0.2	0.2	0.2	0.7	0.7	3.0	5.1	—	—	0.3	0.4
Total OECD^d	57.1	56.4	87.1	85.3	66.9	70.7	35.3	48.1	71.9	57.2	74.9	66.3	66.4	68.0
USSR	0.1	1.2	0.1	2.5	1.8	1.5	1.3	2.8	0.1	3.1	0.2	4.5	2.1	2.0
Other European CEMA	0.3	0.5	0.3	0.5	1.4	1.4	0.1	1.4	0.3	0.7	0.8	0.4	1.4	1.4
Total European CEMA	0.4	1.7	0.3	3.0	3.3	2.9	1.4	3.2	0.4	3.9	1.0	5.0	3.4	3.3
China	0.9	1.4	0.3	1.5	0.5	0.7	4.1	2.5	1.3	3.8	0.7	1.6	0.9	0.9
Rest of World	41.5	40.6	12.3	10.3	27.3	25.8	59.2	46.2	26.4	35.2	23.4	27.1	29.3	27.8
of which OPEC	(12.8)	(10.8)	(4.6)	(3.1)	(12.1)	(9.3)	(36.8)	(15.7)	(11.2)	(7.0)	(8.9)	(5.5)	(14.0)	(9.8)
Total entire World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aTotal European NATO plus the US and Canada.

^bData for Australia were available only in rounded millions.

^cEstimated by the International Monetary Fund.

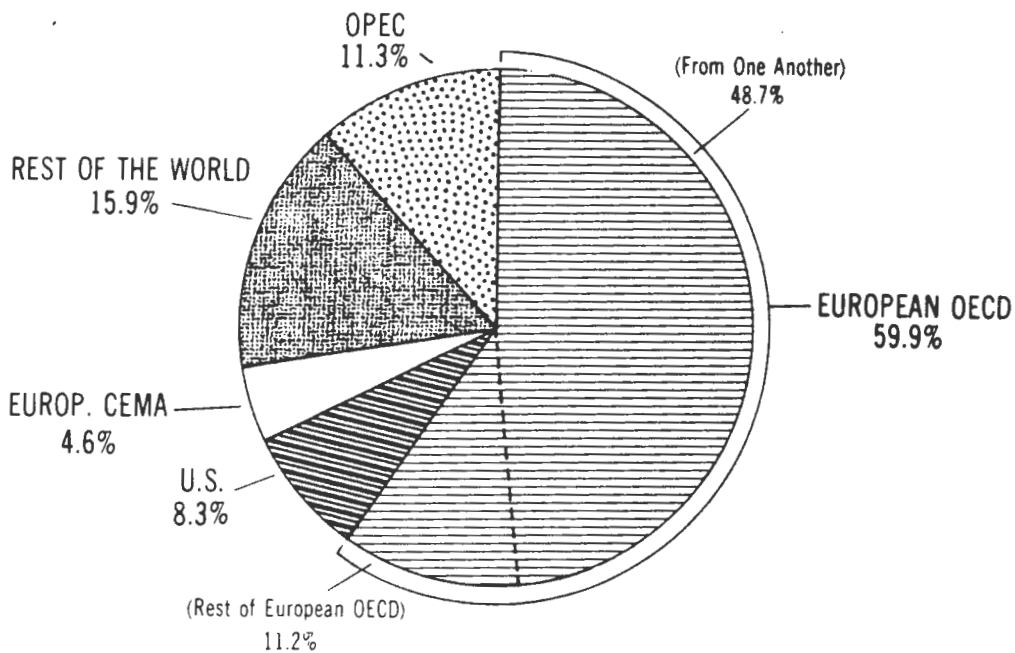
^dTotal European OECD plus the US, Canada, Japan, Australia, and New Zealand.

^ef.o.b.

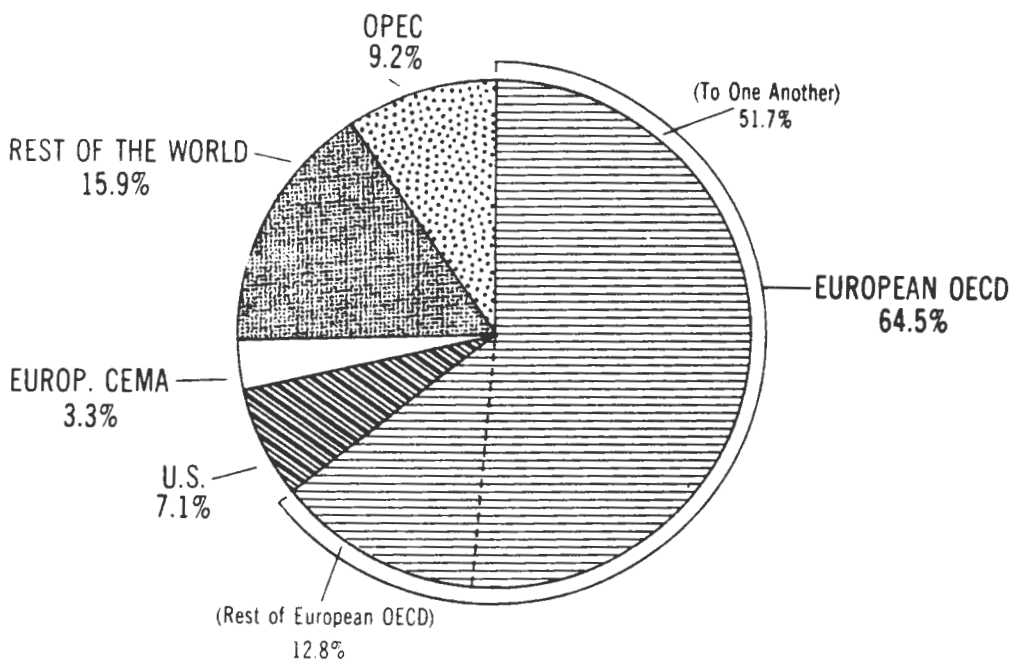
^fTotal of countries listed above, except Ireland.

DIRECTION OF TRADE OF THE EC OF TEN 1982

ORIGIN OF IMPORTS

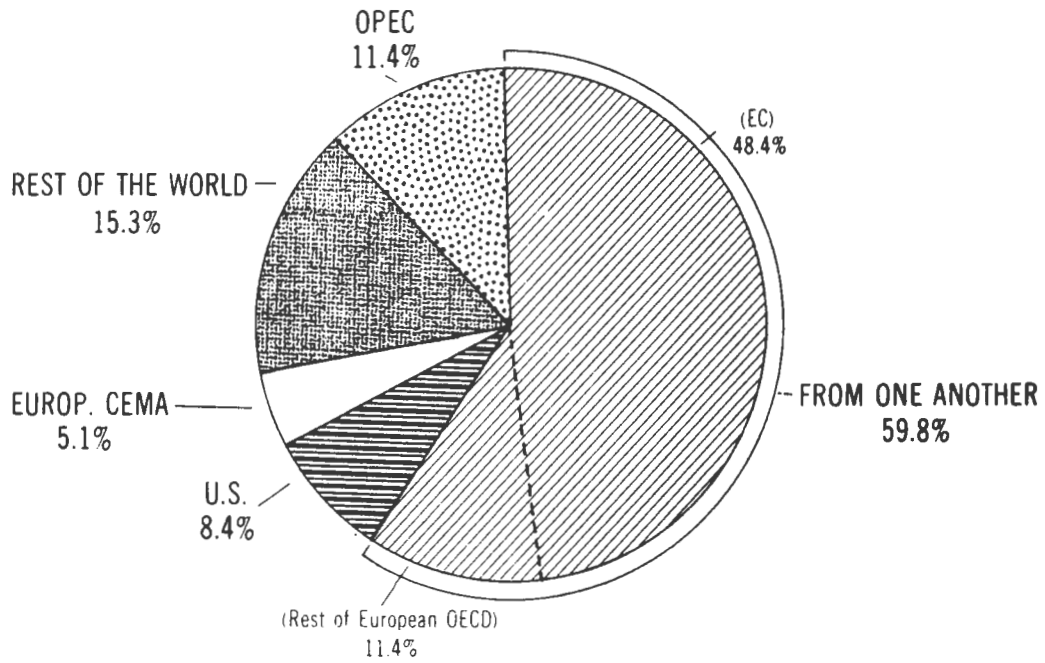


DESTINATION OF EXPORTS

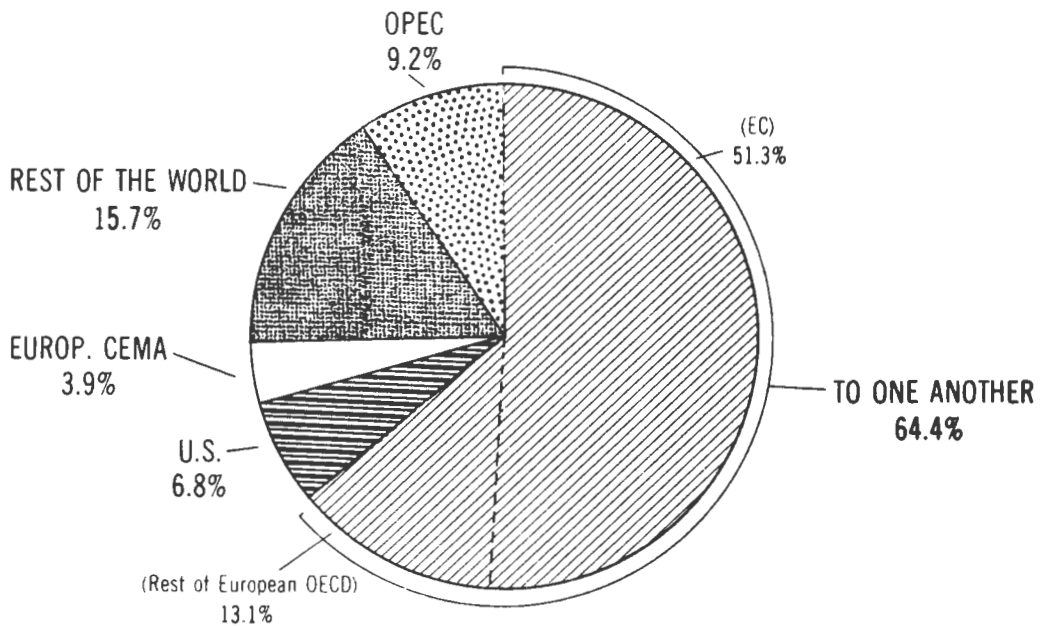


DIRECTION OF TRADE OF EUROPEAN OECD 1982

ORIGIN OF IMPORTS

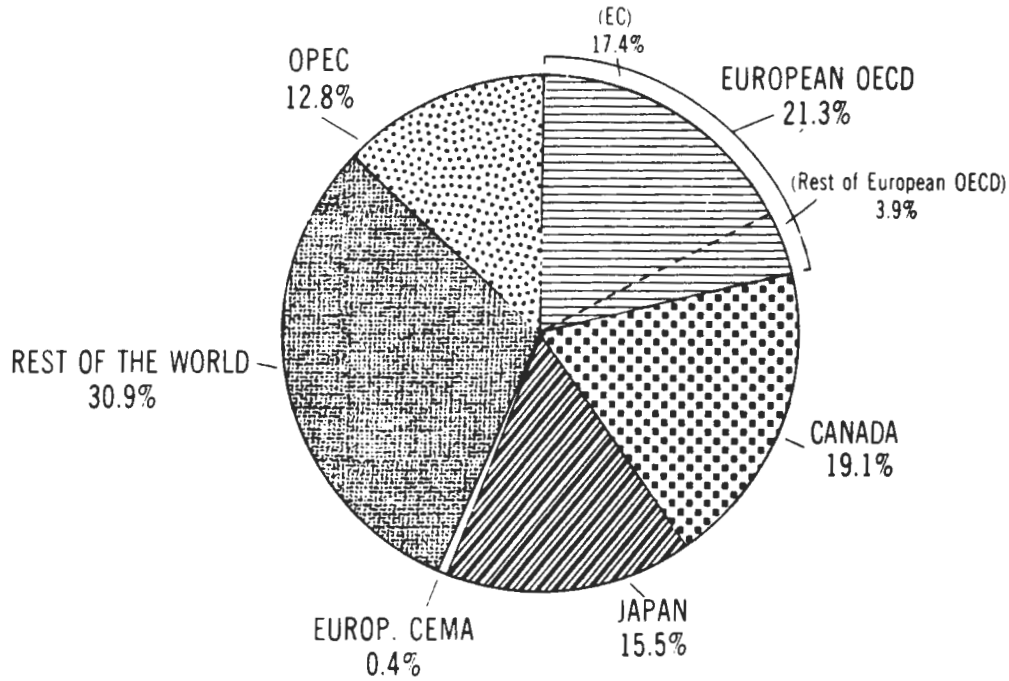


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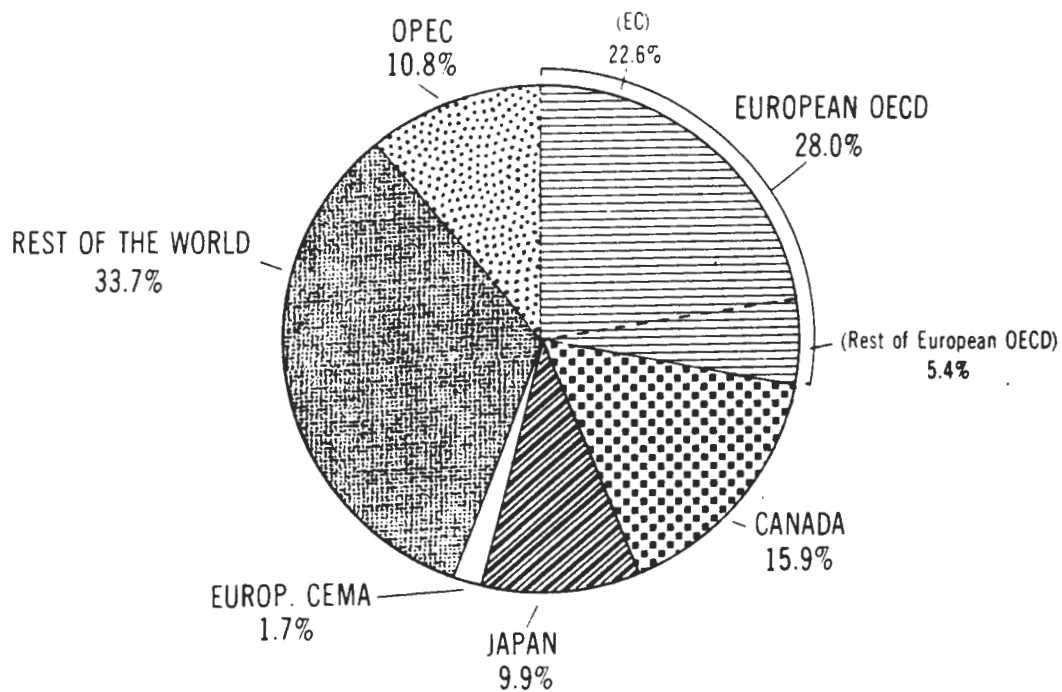


DIRECTION OF TRADE OF THE US 1982

ORIGIN OF IMPORTS

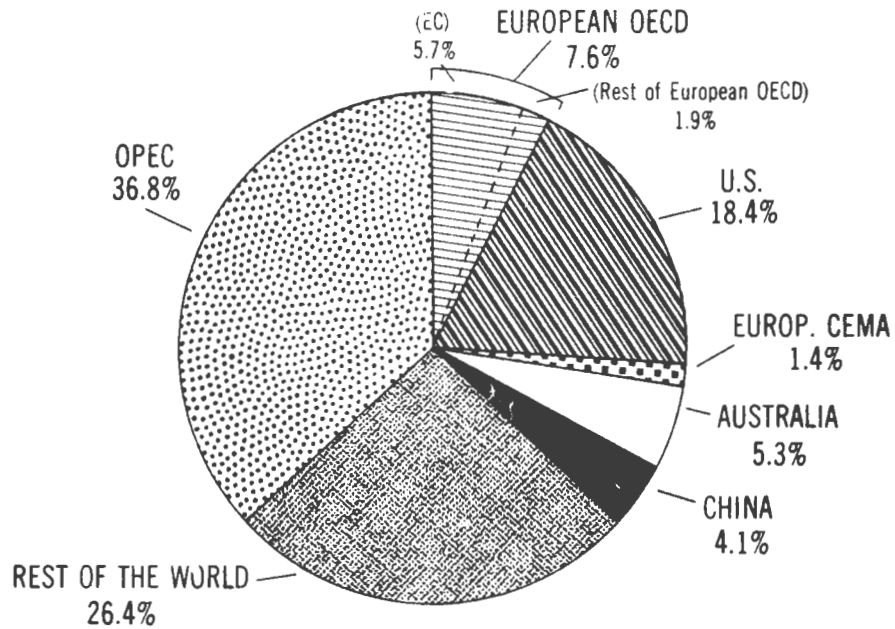


DESTINATION OF EXPORTS

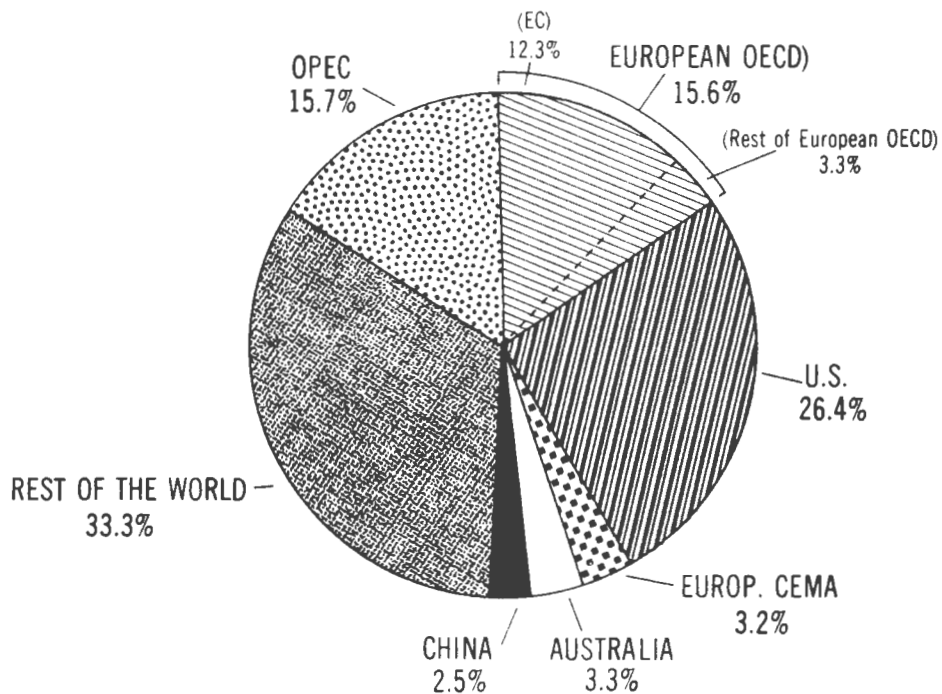


DIRECTION OF TRADE OF JAPAN 1982

ORIGIN OF IMPORTS



DESTINATION OF EXPORTS



Based on Table VIII

Trade Balances
(Billions of U.S. Dollars)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	-28.1	-36.4	-60.6
U.K.	6.5	3.5	-0.8
France	-10.1	-15.5	-7.5
Germany	16.6	25.2	16.4
Japan	20.0	18.1	31.6
Canada	6.2	14.8	14.6
Italy	-10.6	-7.9	-1.8

- Rise in U.S. trade account deficit is most significant development over past several years; expected to reach \$105 billion in 1984.
- Reflects strong U.S. recovery ahead of others, decline in U.S. exports to Latin American countries with debt problems, and higher dollar.
- Sharp reduction in French deficit as Mitterrand government adjustment measures reduce growth, leading to lower imports.
- U.K. trade balance turned negative in 1983, following three years of declining surpluses. Trend reflects lower oil prices, and problems in UK competitiveness; likely to continue in 1984.

Trade Balances as Percent of GNP/GDP

	<u>1981</u>	<u>1982</u>	<u>1983</u>
U.S.	-1.0	-1.2	-1.8
U.K.	1.3	0.7	-0.2
France	-1.8	-2.9	-2.7
Germany	2.4	3.8	2.5
Japan	1.7	1.7	2.7
Canada	2.2	5.1	4.6
Italy	-3.0	-2.3	-0.5

- This graph puts trade balances in perspective by showing them in terms of size of economies.
- 1984 U.S. trade deficit, expected to reach \$105 billion, or 3.1% of GNP, is about the same as Italy's deficit in 1981 or France's deficit in 1982.
- Merchandise trade balances do not take account of services receipts and payments (e.g., dividends, interest, travel), on which U.S. has large net surplus position.



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US TRADE WITH THE EUROPEAN COMMUNITY, 1958-1983

The tables and charts in this report present data on US trade with the 10 countries of the European Community (EC), by value and as a percentage of total US trade. Trade is shown both as a whole and broken down by agricultural and non-agricultural sectors.

The following comparisons with earlier years, with a few exceptions, are made in terms of percentage shares rather than trade values, to minimize the distorting effects of inflation and exchange rate fluctuations.

- US imports from the Ten, as a percentage of total US imports, reached a peak in 1968 (25.1 percent) and then declined, first gradually and then more sharply, until 1976 when they amounted to 15.0 percent. After 1976 they fluctuated, but generally rose. They reached a high of 17.4 percent in 1982, but fell to 17.0 percent in 1983.
- US exports to the Ten, which accounted for more than 25.0 percent of total US exports throughout the 1960s, declined to 21.7 percent in 1975. In the second half of the 1970s they rose slowly, reaching 24.7 percent in 1980; then they again started to decline and stood at 22.1 percent in 1983.
- The only year in which the United States had a trade deficit with the Ten was in 1972, when US imports were \$12.6 billion and US exports were \$12.2 billion. Otherwise the US enjoyed a trade surplus, which grew during most of the 1970s. It reached a record high of \$17.9 billion in 1980 but fell sharply the following years, to \$5.4 billion in 1982 and a mere \$0.4 billion in 1983. But even this small surplus compares favorably with the 1983 US global trade deficit of \$57.5 billion.

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The share of agricultural products in US imports from the Ten stood at 11.5 percent in 1958. It declined in the 1960s and the 1970s, but rose in 1983 to 6.3 percent, compared with 5.8 percent in 1982.

The share of agricultural products in US exports to the Ten declined from 32.0 percent in 1958 to 17.5 percent in 1969. It increased temporarily in the 1970s to between 22.6 percent and 27.3 percent, as a result of high world prices of grains and soybeans and a series of poor European harvests. But it started declining again in 1979, and in 1983 it stood at 16.6 percent.

The share of the Ten in total US agricultural imports from the world rose from 7.9 percent in 1958 to 13.6 percent in 1973. This share then declined to 10.6 percent in 1977 but subsequently increased steadily to record heights of 16.0 percent and 16.6 percent in 1982 and 1983, respectively.

The share of the Ten in total US agricultural exports to the world declined from 35.3 percent in 1960 to 25.6 percent in 1974. It increased during the next three years, but started to drop again until it stood at 20.9 percent in 1981. In 1982 it increased to 22.9 percent, but fell once more to a low of 20.4 percent in 1983.

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List of Tables and Charts

Table I	US Imports From the European Community of Ten, by Countries, 1958-1983
Table II	US Exports to the European Community of Ten, by Countries, 1958-1983
Table III	US Agricultural and Non-Agricultural Trade With the European Community of Ten, 1958-1983
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Chart I	US Agricultural Exports to the European Commu- nity of Ten, 1958-1983
Chart II	US Non-Agricultural Exports to the European Community of Ten, 1958-1983

Note: All 1983 data are preliminary.

TABLE I. US IMPORTS FROM THE EUROPEAN COMMUNITY OF TEN, BY COUNTRIES,* 1958-1983

Country	1958	1960	1968	1969	1972	1973	1974	1975	1976	1977	1979**	1980**	1981**	1982**	1983**
A. Values:															
Million dollars, Customs Value Basis															
Imports from entire world	12,792.5	14,653.9	33,226.3	36,042.8	55,582.8	69,475.7	100,997.3	96,902.4	121,806.7	148,704.0	207,058.0	245,261.9	260,981.8	243,951.9	258,047.8
of which from:															
Belgium-Luxembourg	268.2	363.5	767.1	682.7	968.5	1,273.1	1,682.8	1,199.1	1,131.2	1,468.6	1,756.7	1,923.5	2,297.4	2,396.2	2,412.4
Denmark	83.5	98.3	219.9	257.7	366.9	460.1	476.7	464.3	564.4	586.6	713.4	730.3	850.3	904.5	1,066.8
France	308.2	396.1	842.3	842.2	1,368.6	1,731.8	2,305.1	2,164.1	2,541.0	3,075.0	4,880.8	5,341.2	5,853.5	5,545.3	6,025.0
Federal Republic of Germany	629.4	897.2	2,721.3	2,603.4	4,250.3	5,344.5	6,428.7	5,409.9	5,700.9	7,383.2	11,186.1	11,816.6	11,382.2	11,974.8	12,695.3
Greece	36.9	33.5	62.6	57.5	89.6	92.5	158.3	110.1	145.8	174.1	183.2	292.0	359.1	241.8	238.3
Ireland	16.0	28.3	107.7	123.3	151.9	203.6	247.3	177.7	202.6	237.6	328.5	416.8	498.1	556.4	560.0
Italy	273.7	393.1	1,101.7	1,203.7	1,756.7	2,001.8	2,593.1	2,456.6	2,543.7	3,073.6	5,046.6	4,389.7	5,190.9	5,301.4	5,455.3
Netherlands	188.3	213.0	452.9	466.4	639.3	933.5	1,449.1	1,088.8	1,094.0	1,496.8	1,868.5	1,923.7	2,370.1	2,493.9	2,969.6
UK	864.3	992.7	2,058.3	2,120.4	2,987.1	3,656.5	4,022.7	3,772.9	4,289.5	5,183.1	8,106.3	9,908.4	12,845.5	13,094.8	12,469.6
Total EC of Ten	2,668.5	3,415.7	8,333.8	8,357.3	12,578.9	15,697.4	19,363.8	16,843.5	18,213.1	22,678.6	34,070.1	36,742.2	41,647.1	42,509.1	43,892.3
B. Percentages:															
Imports from entire world	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which from:															
Belgium-Luxembourg	2.1	2.5	2.3	1.9	1.7	1.8	1.7	1.2	0.9	1.0	0.9	0.8	0.9	1.0	0.9
Denmark	0.7	0.7	0.7	0.7	0.7	0.7	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.4	0.4
France	2.4	2.7	2.5	2.3	2.5	2.5	2.3	2.2	2.1	2.1	2.4	2.2	2.2	2.3	2.3
Federal Republic of Germany	4.9	6.1	8.2	7.2	7.6	7.7	6.4	5.6	4.7	5.0	5.4	4.8	4.4	4.9	4.9
Greece	0.3	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Ireland	0.1	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Italy	2.1	2.7	3.3	3.3	3.2	2.9	2.6	2.5	2.1	2.1	2.4	1.8	2.0	2.2	2.1
Netherlands	1.5	1.5	1.4	1.3	1.2	1.3	1.4	1.1	0.9	1.0	0.9	0.8	0.9	1.0	1.2
UK	6.8	6.8	6.2	5.9	5.4	5.3	4.0	3.9	3.5	3.5	3.9	4.0	4.9	5.4	4.8
Total EC of Ten	20.9	23.3	25.1	23.2	22.6	22.6	19.2	17.4	15.0	15.3	16.5	15.0	16.0	17.4	17.0

* Data on individual countries may be misleading in view of transshipment between EC members. Percentages may not necessarily add to the totals shown, because of rounding.

**Starting 1979, data include shipments of nonmonetary gold.

Sources: US Department of Commerce, Bureau of the Census, "Highlights of US Export and Import Trade," US Foreign Trade Series FT 990, for various years.

TABLE II. US EXPORTS TO THE EUROPEAN COMMUNITY OF TEN, BY COUNTRIES,* 1958-1983

Country	1958	1960	1968	1969	1972	1973	1974	1975	1976	1977	1979**	1980**	1981**	1982**	1983**
A. Values:															
Million dollars f.o.b.															
Exports to entire world of which to:	17,910.0	20,575.5	34,635.9	38,005.6	49,778.2	71,338.8	98,507.2	107,591.5	114,992.4	121,242.4	181,815.6	220,782.5	233,739.1	212,274.6	200,537.6
Belgium-Luxembourg	366.8	466.9	822.9	959.6	1,138.1	1,622.6	2,283.8	2,417.4	2,992.7	3,138.1	5,186.7	6,661.3	5,764.5	5,229.2	5,049.0
Denmark	99.9	146.3	206.7	204.6	257.7	403.6	360.3	444.6	444.1	531.7	731.7	863.2	887.4	732.0	649.0
France	569.8	698.7	1,095.0	1,195.1	1,608.9	2,262.9	2,941.5	3,031.0	3,446.3	3,503.2	5,587.0	7,485.4	7,340.5	7,110.4	5,961.3
Federal Republic of Germany	887.0	1,271.6	1,708.9	2,142.1	2,807.5	3,755.7	4,984.6	5,194.1	5,730.8	5,988.8	8,477.8	10,959.8	10,276.7	9,291.3	8,736.7
Greece	192.7	102.8	142.3	254.7	250.2	375.1	487.5	449.8	590.6	539.2	811.5	921.8	675.6	721.4	503.3
Ireland	32.2	42.5	86.7	117.6	125.0	158.9	193.1	190.3	280.2	377.8	694.8	835.6	1,024.6	983.4	1,115.4
Italy	563.6	719.6	1,120.8	1,261.5	1,434.2	2,118.6	2,751.6	2,866.9	3,071.1	2,789.6	4,361.8	5,511.1	5,360.0	4,616.1	3,907.5
Netherlands	482.3	817.1	1,379.9	1,446.7	1,870.8	2,859.2	3,979.0	4,193.5	4,642.5	4,811.6	6,916.9	8,669.1	8,594.6	8,603.8	7,767.4
UK	905.2	1,486.9	2,288.7	2,334.6	2,658.2	3,563.6	4,573.5	4,527.4	4,801.2	5,950.9	10,634.9	12,693.6	12,439.2	10,644.7	10,621.2
Total EC of Ten	4,099.5	5,752.4	8,851.9	9,916.5	12,150.6	17,120.2	22,554.9	23,315.0	25,999.5	27,630.9	43,403.1	54,600.9	52,363.1	47,932.3	44,310.8
B. Percentages:															
Exports to entire world of which to:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Belgium-Luxembourg	2.0	2.3	2.4	2.5	2.3	2.3	2.3	2.3	2.6	2.6	2.9	3.0	2.5	2.5	2.5
Denmark	0.6	0.7	0.6	0.5	0.5	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
France	3.2	3.4	3.2	3.1	3.2	3.2	3.0	2.8	3.0	2.9	3.1	3.4	3.1	3.3	3.0
Federal Republic of Germany	5.0	6.2	4.9	5.6	5.6	5.3	5.1	4.8	5.0	4.9	4.7	5.0	4.4	4.4	4.4
Greece	1.1	0.5	0.4	0.7	0.5	0.5	0.5	0.4	0.5	0.4	0.5	0.4	0.3	0.3	0.3
Ireland	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.6
Italy	3.1	3.5	3.2	3.3	2.9	3.0	2.8	2.7	2.7	2.3	2.4	2.5	2.3	2.2	1.9
Netherlands	2.7	4.0	4.0	3.8	3.8	4.0	4.0	3.9	4.0	4.0	3.8	3.9	3.7	4.1	3.9
UK	5.1	7.2	6.6	6.1	5.3	5.0	4.6	4.2	4.2	4.9	5.9	5.8	5.3	5.0	5.3
Total EC of Ten	22.9	28.0	25.6	26.1	24.4	24.0	22.9	21.7	22.6	22.8	23.9	24.7	22.4	22.6	22.1

* Data on individual countries may be misleading in view of transshipment between EC members. Percentages may not necessarily add to the totals shown, because of rounding.

**Starting 1979, data include shipments of nonmonetary gold.

Sources: US Department of Commerce, Bureau of the Census, "Highlights of US Export and Import Trade," US Foreign Trade Series FT 990, for various years.

TABLE III. US AGRICULTURAL AND NON-AGRICULTURAL TRADE WITH THE EUROPEAN COMMUNITY OF TEN, 1958-1983

(\$ millions)

Year	Total Trade, From or to EC of Ten*	of Which:		As Percent of Total	
		Agriculture	Non-Agriculture*	Agriculture	Non-Agriculture*
A. Imports:					
1958	2,668.5	306.9	2,361.6	11.5	88.5
1960	3,415.7	342.5	3,073.2	10.0	90.0
1968	8,333.8	595.4	7,738.4	7.1	92.9
1969	8,357.3	601.5	7,755.8	7.2	92.8
1972	12,578.9	836.8	11,742.8	6.7	93.3
1973	15,697.4	1,144.7	14,552.7	7.3	92.7
1974	19,363.8	1,193.3	18,170.5	6.2	93.8
1975	16,483.5	1,107.5	15,376.0	6.7	93.3
1976	18,213.1	1,264.6	16,948.5	6.9	93.1
1977	22,678.6	1,419.5	21,259.1	6.3	93.7
1979	34,070.1	1,950.1	32,120.0	5.7	94.3
1980	36,742.2	2,130.2	34,612.0	5.8	94.2
1981	41,647.1	2,256.4	39,390.7	5.4	94.6
1982	42,509.1	2,466.7	40,043.4	5.8	94.2
1983	43,892.3	2,762.3	41,130.0	6.3	93.7
B. Exports:					
1958	4,099.5	1,312.9	2,786.6	32.0	68.0
1960	5,752.4	1,703.8	4,048.6	29.6	70.4
1968	8,851.9	1,872.6	6,979.3	21.2	78.8
1969	9,916.5	1,736.3	8,180.2	17.5	82.5
1972	12,150.6	2,748.6	9,402.0	22.6	77.4
1973	17,120.2	4,667.7	12,452.5	27.3	72.7
1974	22,554.9	5,624.3	16,930.6	24.9	75.1
1975	23,315.0	5,705.8	17,609.2	24.5	75.5
1976	25,999.5	6,564.4	19,435.1	25.3	74.7
1977	27,630.9	6,785.0	20,845.9	24.6	75.4
1979	43,403.1	7,847.5	35,555.6	18.1	81.9
1980	54,600.9	9,236.3	45,364.6	16.9	83.1
1981	52,363.1	9,058.9	43,304.2	17.3	82.7
1982	47,932.3	8,397.5	39,534.8	17.5	82.5
1983	44,310.8	7,373.9	36,936.9	16.6	83.4

Note: Some commodities formerly classified as non-agricultural (such as fur skins) have been included in agricultural trade beginning with 1970, according to the US Department of Agriculture.

*Starting 1979, data include shipments of nonmonetary gold.

Sources: US Department of Commerce, Bureau of the Census, "Highlights of US Export and Import Trade," US Foreign Trade Series FT 990, for various years. US Department of Agriculture, Economic Research Service, "Foreign Agricultural Trade of the United States," for various years, and unpublished trade data.

TABLE IV. US AGRICULTURAL AND NON-AGRICULTURAL TRADE WITH THE EUROPEAN COMMUNITY OF TEN, AS PERCENT OF WORLD, 1958-1983

(\$ millions)

Year	Total Trade		of Which:			
	From or to World		From or to the EC of Ten			
	Agriculture	Non-Agriculture*	Agriculture	Non-Agriculture*	As Percent of World	
					Agriculture	Non-Agriculture*
A. Imports:						
1958	3,882.2	8,910.3	306.9	2,361.6	7.9	26.5
1960	3,824.6	10,829.3	342.5	3,073.2	8.0	28.4
1968	5,023.6	28,202.7	595.4	7,738.4	11.9	27.4
1969	4,957.4	31,085.4	601.5	7,755.8	12.1	25.0
1972	6,466.9	49,115.9	836.8	11,742.8	12.9	23.9
1973	8,419.1	61,056.6	1,144.7	14,552.7	13.6	23.8
1974	10,247.3	90,750.0	1,193.3	18,170.5	11.7	20.0
1975	9,310.1	87,592.3	1,107.5	15,376.0	11.9	17.6
1976	10,990.4	110,816.3	1,264.6	16,948.5	11.5	15.3
1977	13,438.1	135,265.9	1,419.5	21,259.1	10.6	15.7
1979	16,725.1	190,332.9	1,950.1	32,120.0	11.7	16.9
1980	17,366.1	227,895.8	2,130.2	34,612.0	12.3	15.2
1981	16,772.1	244,209.7	2,256.4	39,390.7	13.5	16.1
1982	15,385.3	228,566.6	2,465.7	40,043.4	16.0	17.5
1983	16,620.6	241,427.2	2,762.3	41,130.0	16.6	17.0
B. Exports:						
1958	3,854.0	14,056.0	1,312.9	2,786.6	34.1	19.8
1960	4,824.2	15,751.3	1,703.8	4,048.6	35.3	25.7
1968	6,227.6	28,408.3	1,872.6	6,979.3	30.1	24.6
1969	5,936.4	32,069.2	1,736.3	8,180.3	29.3	25.5
1972	9,400.7	40,377.5	2,748.6	9,402.0	29.2	23.3
1973	17,680.5	53,658.3	4,667.7	12,452.5	26.4	23.2
1974	21,998.9	76,508.3	5,624.3	16,930.6	25.6	22.1
1975	21,884.1	85,707.4	5,705.8	17,609.2	26.1	20.6
1976	22,996.7	91,995.7	6,564.4	19,435.1	28.5	21.1
1977	23,636.2	97,606.2	6,785.0	20,845.9	28.7	21.4
1979	34,745.4	147,070.2	7,847.5	35,555.6	22.6	24.2
1980	41,223.4	179,559.1	9,236.3	45,364.6	22.4	25.3
1981	43,339.4	190,399.7	9,058.9	43,304.2	20.9	22.7
1982	36,622.6	175,652.0	8,397.5	39,534.8	22.9	22.5
1983	36,098.1	164,439.5	7,373.9	36,036.9	20.4	21.9

NOTE: Some commodities formerly classified as non-agricultural (such as fur skins) have been included in agricultural trade beginning with 1970, according to the US Department of Agriculture.

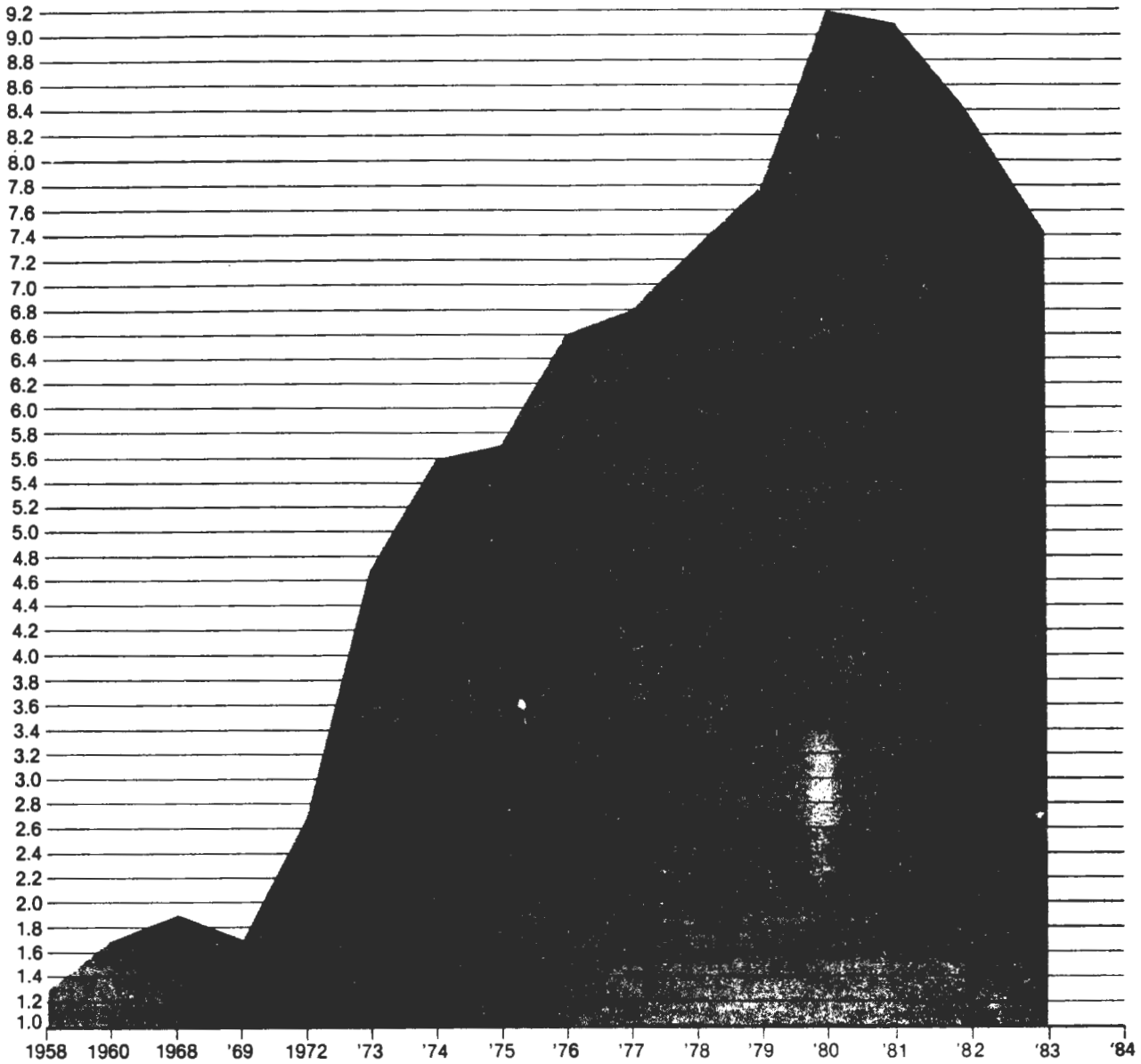
*Starting 1979, data including shipments of nonmonetary gold.

Source: US Department of Commerce, Bureau of the Census, "Highlights of US Export and Import Trade," US Foreign Trade Series FT 990, for various years. US Department of Agriculture, Economic Research Service, "Foreign Agricultural Trade of the United States," for various years, and unpublished trade data.

U.S. AGRICULTURAL EXPORTS TO THE EUROPEAN COMMUNITY OF TEN

1958-1983

Billions of current dollars at current exchange rates, f.o.b.



PERCENT OF TOTAL AGRICULTURAL EXPORTS

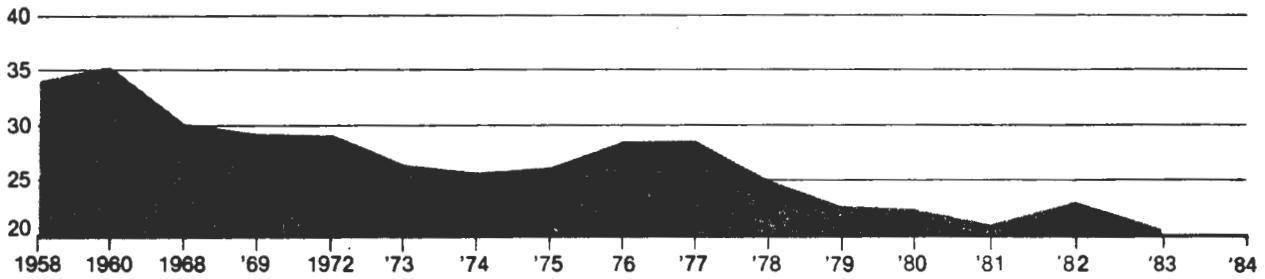


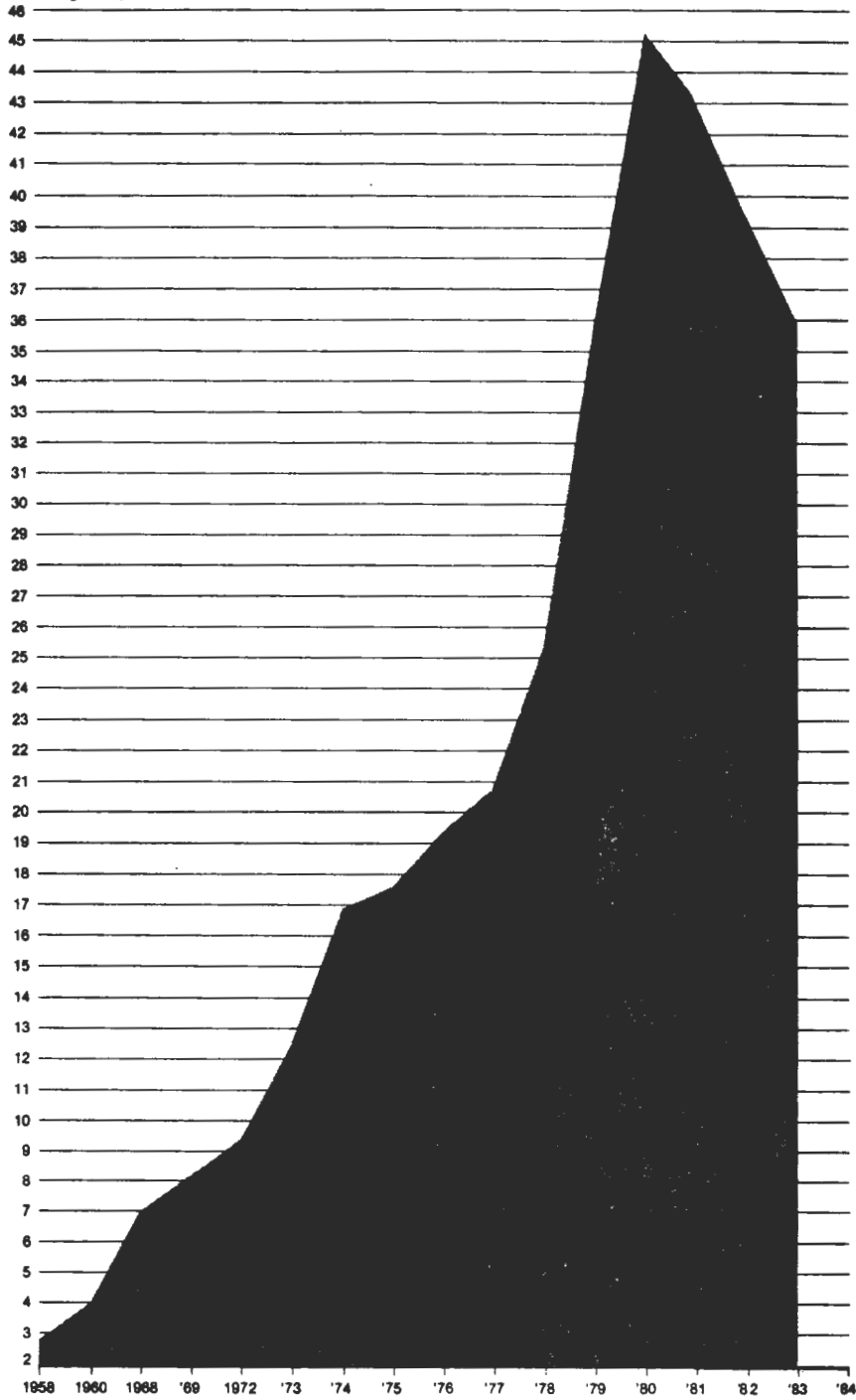
Chart I

Based on Table IV

**U.S. NON-AGRICULTURAL EXPORTS TO THE
EUROPEAN COMMUNITY OF TEN**

1968-1983

Billions of current dollars at
current exchange rates, f.o.b.



PERCENT OF TOTAL NON-AGRICULTURAL EXPORTS

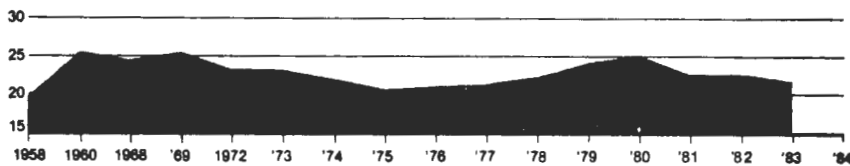


Chart II

Based on Table IV