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*Last Updated: 12/4/2023*

# The Trade Game: Turnaround Fair, U.S. Tells Players

By Hobart Rowen  
Washington Post Staff Writer

The Reagan administration's espousal this week of what it billed as a "free trade" policy (to the bitter complaint of protectionist-oriented U.S. industries such as steel and shoes) should not lull U.S. trading partners into a false sense of security.

The president and his team are preparing to demand strict reciprocity from America's principal trading partners at the Ottawa summit July 19-21. Moreover U.S. negotiators are likely to insist that something be done about "newer distortions" cropping up in trade in services and about Canada's nationalistic decisions relating to foreign investment.

"One of the most difficult challenges we must face in seeking to achieve free trade is to develop appropriate responses to the growing intervention of foreign governments in international trade," Ambassador William Brock, U.S. Trade Representative told Congress.

Specifically, the United States is continuing to press the government of Socialist President Francois Mitterrand to drop a policy of extremely generous export credit subsidies that were put in place by Valery Giscard d'Estaing and is demanding that Canada reverse some of its discriminatory rules on U.S. investment in Canada.

"We are going to put great pressure on our trading partners to reduce all barriers to our exports," adds one White House adviser.

But the Reagan administration has shown a great deal of ambivalence in developing a trade policy, especially in relation to imports. Against his inherent free-market instincts, Reagan had to deal with his campaign commitment to "do something" for the hard-pressed U.S. auto industry. That "something" eventually turned into "voluntary" quotas that will cut Japanese car shipments here this year by some 140,000 cars.

Acceptance of the Japanese quota threatened to tear the administration apart. It has been criticized as a quick fix — one that didn't deal with fundamental problems, including excessively high wages or the industry's investment and modernization programs.

And when it came to evolving the formal trade "white paper" presented to Congress this past week by Brock, the most ardent of the administration's free-traders had to fight hard to change the proposed wording from advocacy of "free and fair trade" to simply "free trade" and to eliminate (in one early version) a flat commitment of relief if a domestic industry could show injury from imports.

Nonetheless, the white paper as released stands, basically, as a pro-competition document. But the tone — in the mind of committed free-traders — leaves something to be desired. Says one outside trade expert: "They [the Reagan administration] have a procompetition philosophy, but no strategy. They kind of say to U.S. industry, 'it's sink or swim, unless you have political clout.'"

By way of contrast, testimony by Council of Economic Advisers Chairman Murray L. Weidenbaum supporting the administration paper was a much more aggressive endorsement of completely free trade, which welcomes high imports as well as high exports. "In fact," said Weidenbaum, "the only way in the long run to increase our exports is to increase our imports." Explaining "this rather provocative point," Weidenbaum went on to observe, as an example, that restrictive quotas on imports of foreign shoes caused U.S. exports of hides to suffer.

"The question is frequently asked," Weidenbaum testified, "Other nations do not have a policy of freer trade, why should we? But rather than ask if other countries practice 'free' trade, I would ask if their trade policies are more open today than they would be without the continued pressure of agreed international rules of the game — rules often developed under the persistent and patient influence of the U.S. government. My answer is a resounding yes."

Weidenbaum's final point was that U.S. trade restrictions, whether put in effect for "retaliatory reasons or otherwise, runs the risk of setting us on a path leading back toward the 1930s." Weidenbaum's words succinctly expressed the fear of many, as the Ottawa economic summit nears, that the world is drifting into a "beggar-thy-neighbor" condition, in which open protectionism is the norm, rather than the exception.

The compromise Brock document is not that direct, presumably because it was produced by a committee representing as well the corporate-oriented

sentiments prevailing at the Departments of Commerce, Transportation, and Agriculture among others. In other words, it falls far short of its billing by Sen. John C. Danforth (R-Mo.) as a "survival-of-the-fittest" policy. Even now, according to some administration sources, limitations are being considered on imported tobacco and casein, as well as a modification of the Multi-Fiber Agreement that would reduce the textile quotas of some less developed countries.

On the other hand, the administration had the political courage to face down demands from the shoe industry

that it continue quotas on imports from Korea and Taiwan. Many administration officials — in the State and Treasury departments and the Council of Economic Advisers — hope the shoe decision, rather than the Japanese auto decision, will prove to be the norm of Reagan policy.

Approaching the summit, some of Reagan's trade advisers fear there is a risk that the trading system will be pulled apart by the investment and services issues that until now have been shoved into the background by higher-profile arguments over autos and textiles. Assistant Secretary of State Robert Hormats observes that countries less competitive than the U.S. in data-processing "are very jealous of their markets and are reluctant to let us in."

Other countries are surprisingly dependent on U.S. data-processing. Hormats cited the example of the Malmo, Sweden, fire department which keeps all of its records at a U.S. data-processing firm in Cleveland: "Every time there's a fire, someone calls a number, [and] it goes over the satellite. Malmo tells them how many people live in the house and where the fire alarms are and everything. And you can begin to see how countries are a little worried. All this data is being done somewhere else far away."

Europeans tend to complain that America sets economic policy without due sensitivity to its impact on its partners. There is a certain amount of truth to this complaint, even though the U.S. now depends on exports for roughly 12 percent of its gross national product, or twice as much as in 1960 and four times the ratio in the 1940s.

For all the sloganeering about an interdependent world, the harsh fact is that every nation these days puts self-interest first. Hormats, who has devoted a career ranging over four administrations to supporting an open trading policy, made the point this way the other day:

"There is a growing feeling in this country that, somehow, the United States is an economy which is far more open than most of its trading partners... [which now] go along with a more parochial, more nationalistic approach to trade."

He cited three examples — Canada, Japan and Western Europe. All of these countries sign open-trading, anti-protectionist declarations at summits, he said — and then go home to do the opposite.

Europe "is beginning to lose some of its outward zeal," while complaining about Japanese protectionism. Only



West Germany still exhibits a sense of "obligation" to an open trading system, while "most other countries [in Europe] — not for malicious reasons, but simply because they're preoccupied with their domestic economies — are less and less willing to stand up for a free-trading system," Hormats said.

While Europe seeks protection for some of its declining industries, Japan's protectionism works the other way — toward its infant industries. Coincidentally, although Japan has opened its markets considerably in the past couple of years, it still finds effective ways of blocking totally free access to its own markets.

All of these issues will form an important backdrop for the Ottawa summit, although only the most general references are likely to creep into the communique. The seven summit leaders, after all, are members of a very exclusive club, in which there is supposed to be no finger-pointing. For the most part, the communique will deal with such unexceptionable statements that trade policy, to be successful, depends on each country achieving a sound domestic economy. But the Catch-22 is that a sound domestic economy depends on a sound trade policy, which in turn depends on enlightened leadership.

**WHITE HOUSE STAFFING MEMORANDUM**

25 NOV 1981

DATE: \_\_\_\_\_ ACTION/CONCURRENCE/COMMENT DUE BY: \_\_\_\_\_

SUBJECT: Alert: Tentative Budget Decision Re U.S. Trade Representative

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
<b>MEESE</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	JENKINS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BAKER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MURPHY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NOFZIGER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input type="checkbox"/>	<input type="checkbox"/>	WILLIAMSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ALLEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	WEIDENBAUM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	HICKEY	<input type="checkbox"/>	<input type="checkbox"/>
BRADY/SPEAKES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MC COY	<input type="checkbox"/>	<input type="checkbox"/>
CANZERI	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
DOLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	USTR	<input type="checkbox"/>	<input type="checkbox"/>
FRIEDERSDORF	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
FULLER ( <i>For Cabinet</i> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GERGEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HARPER	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Remarks:

This "Alert" re '83 budget decisions is forwarded to you in order that:

- (a) You may be informed of the OMB Director's tentative decisions on potentially sensitive matters.
- (b) You may participate in the appeals process as you see fit. (My office will inform you of meetings concerning appeals that are of interest to you.)

Please note: The Director's tentative decisions are not intended to be public -- nor are positions taken in the appeals process.

Thank you.

Richard G. Darman  
Assistant to the President  
and  
Deputy to the Chief of Staff  
(x-2702)



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

NOV 24 1983

MEMORANDUM FOR: DICK DARMAN  
FROM: DAVID STOCKMAN *AAS*  
SUBJECT: 1983 Budget Decision - Alert for Senior Staff: Office of  
the U.S. Trade Representative

This is to advise that we are today informing the Office of the U.S. Trade Representative of our decisions on their 1983 Budget Request. Included in these decisions are the following items that are particularly sensitive and may, if leaked to the media or elsewhere, attract special attention:

- The staffing levels are substantially (7%) below those requested by Bill Brock, and may force U.S.T.R. to reduce somewhat the range of its activities; and
- The funding level is 3% below the planning ceiling that was given to the agency in September and 12% below its request. Only inflationary increases and a modest growth in travel have been allowed above the 1982 ceiling.

Brock can be expected to appeal strongly the decisions that are being passed back on both staffing and funding for his agency. The decisions reflect OMB's judgment that U.S.T.R. mandated role in trade policy coordination and negotiations can be adequately carried out at the recommended level, and that U.S.T.R. would continue to expand the scope of its activities unless limits were imposed externally.



*negmt log*

ID # 054172 CN

### OFFICE OF THE COUNSELLOR ACTION TRACKING WORKSHEET

**Action resulting from:**

- document (attached)
- telephone call
- meeting (attach conference report if available)

Document Date: 81, 12, 26

From: CRAIG FULLER

Date Received: 81, 12, 30

Subject: Moving USTR into the Dept. of Commerce.

**ROUTE TO:**

Date Sent	Name	Action	FYI	Date Due	Action Taken
<u>81, 12, 30</u>	<u>CN MEES</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<u>/ /</u>	
<u>/ /</u>		<input type="checkbox"/>	<input type="checkbox"/>	<u>/ /</u>	
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**COMMENTS:**

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Originator:  Meese  Jenkins  Thomas  Stanley  Strichartz  Randolph  Melvin  Duncan

**KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING MATERIAL AND WHEN THE ASSIGNED ACTION IS COMPLETE, RETURN TO:**

Office of the Counsellor  
West Wing/First Floor



30 DEC 1981

054172

THE WHITE HOUSE

WASHINGTON

DECEMBER 26, 1981

NOTE FOR ED MEESE

FROM: CRAIG FULLER 

SUBJECT: USTR PROPOSAL

I noted in a Morning Briefing several days ago that a couple of news reports had indicated that you were considering moving USTR into the Department of Commerce. Those stories have generated some correspondence (sample attached).

Could you give me some guidance. Thanks.

JOHN R. LACEY

December 14, 1981

Dear Mr. Meese,

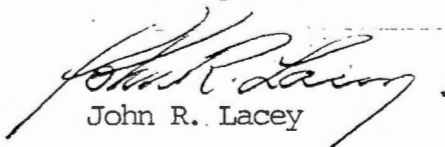
I am writing to express my deep concern over a recent proposal to abolish the Office of the United States Trade Representative and to transfer its functions to the Department of Commerce.

While I can certainly agree with the general logic of such a proposal and support your efforts to streamline and simplify agency operations, I strongly believe that circumstances in this particular instance warrant retention of the U.S.T.R. in its present form. The world trade system, which represents an increasingly important part of our economy, has, since the conclusion of the Tokyo Round, entered a new and very difficult era. The series of codes which were negotiated in the Tokyo Round and are reflected in the subsequent revisions to the Trade Act, require an administering authority detached from special interests and which can function independently of any single department with the perspective to deal properly with a multitude of conflicting views.

The history of the multilateral trade negotiations over the last twenty years is replete with examples of the need for a central office such as the U.S.T.R.. There each department and interest group is able to obtain a hearing but no one group is able to override the vital needs and national interests which form such a large part of trade policy.

I strongly urge you to carefully consider the important service which the U.S.T.R. performs in shaping our trade policy in light of the very real and very serious problems which we face in that area today.

Sincerely,

  
John R. Lacey

143 Belleview  
Southington, CT. 06489



FREDERICK B. DENT  
19 MONTGOMERY DRIVE  
SPARTANBURG, S. C.  
29302

December 14, 1981

The Honorable Edwin Meese, III  
Counselor to the President  
The White House  
Washington, D.C. 20506

Dear Mr. Meese:

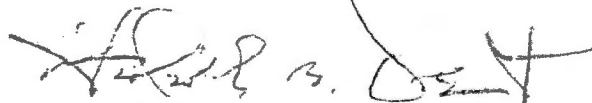
I have read in the December 12th "New York Times" that you are giving consideration to phasing out the Office of the United States Trade Representative and are also seeking business reaction to shifting trade negotiation functions to the Secretary of Commerce.

As the only individual who has held the offices of Secretary of Commerce and U.S. Trade Representative, I would like to express the view that the Office of U.S. Trade Representative should be preserved. In my judgment, both the interests of the country and the President are best served having a cabinet level official available to travel abroad in as responsive a way as the STR is with his much smaller support staff. Furthermore this office represents all of the trade interests which are spread<sup>1</sup> so widely across the various executive departments and agencies whereas the Secretary of Commerce is suspect of having a much narrower view.

Trade representation responsibility is best carried out by a small, responsive organization as differentiated from the cumbersomeness of a major department. Furthermore with the massive trade deficits which are in prospect for the country for the foreseeable future, I think it very unwise to reorganize the trade negotiating function in a way which might give the appearance of downgrading. Such action would not serve the political interests of the President, nor would it serve the trade interests of the country in my judgment.

As you know, the STR has organized private sector advisory groups representing agriculture, industry and labor which in my judgment are vital organizations in maintaining a fair, equitable and publicly supported international trade policy in this country. The effectiveness of these groups would be seriously eroded if trade negotiation responsibilities were shifted to the Department of Commerce.

Very truly yours,



FBD:mpg

## DISC DISCUSSION

### What is DISC

- o Domestic: International Sales Corporation (DISC) a special corporation used to shelter export income from taxation.
- o Often only paper corporation, no employees or real business activity.
- o Special rules permit favorable allocation of profits to DISC and favorable tax treatment of those profits.
- o Part of tax code since 1971.

### What are problems

- o DISC focus of international dispute in General Agreement on Tariffs and Trade (GATT). Our GATT trading partners have agreed that DISC is illegal under GATT rules.
- o Recognizing the inevitability of a formal GATT ruling that DISC is illegal, the U.S. has indicated it will propose domestic legislation that will "address the concerns of its trading partners."
- o Export incentive, such as DISC, causes the U.S. to both export and import more. Jobs are not increased. Steel, autos, other industries facing import competition are hurt. DISC costs \$1.5 billion annually and results in no net benefit to the economy.



Options

- o Most of publicly discussed DISC alternatives are GATT illegal.
- o GATT legal tax alternative would encourage use of tax havens; require U.S. business to locate capital, employ labor outside the United States.
- o Flexible, reactive non-tax alternative could be aimed at particular offensive foreign practices. Has drawback, type of subsidy we have been trying to eliminate.
- o Phased repeal of DISC.

FY 1983 TRADE RESOURCES  
(\$ in millions)

	<u>Commerce</u>	<u>USTR</u>	<u>Exim</u>	<u>OPIC</u>	<u>State</u>	<u>Treasury</u>	<u>ITC</u>	<u>Defense</u>	<u>Labor</u>	<u>Agri.</u>
Operating Expenses...	148	11	15	11	13	592	20	12	99	81
Direct Loans .....	1	-	3,830	15	-	-	-	-	-	350
Loan Guarantees.....	4	-	8,000	120	-	-	-	-	-	4,800
Investment Insurance.	-	-	-	1,500	-	-	-	-	-	-
<u>Workyears</u>										
FTE .....	2,496	133	344	139	280	13,891	436	220	150	814

o Total estimated FY 1983 investment is over 18,903 workyears and 19.6 billion dollars.



CURRENT INTERNATIONAL TRADE ORGANIZATIONS  
AND FUNCTIONS

<u>Agencies</u>	<u>Commerce</u>	<u>USTR</u>	<u>Exim</u>	<u>OPIC</u>	<u>State</u>	<u>Treasury</u>	<u>ITC</u>	<u>Defense</u>	<u>Labor</u>	<u>Agri.</u>
Functions:										
Policy Development	●	*	0	0	●	●	0	0	0	●
Negotiations	●	*	0	0	●	●	0	0	0	●
Implementation	*	●	0	0	●	●	●	0	0	*
Credit Policy/ Negotiation	0	●	●		0	*				●
Export Regulation	*				●	●		●		0
Import Regulation	*	*				●	0	0	0	●
Trade Promotion	*	●	*	●	0	●				*
Legend:	* = Formal Lead Role    ● = Major Role    0 = Supporting Role									