Foreign Trade Meeting Clings To Protectionism, Slower Growth

Demogagic calls for protectionism, energy conservation, slower economic growth, and a perpetual trade deficit dominated the 64th National Convention of the National Foreign Trade Council, held in New York, Nov. 14 and 15.

SPECIAL REPORT

With the sole bright exception of a speech by Yoshizo Ikeda, president of Mitsui and Co., who outlined steps for joint U.S.-Japan development of Southeast Asia, none of the featured speakers presented the concrete measures for increased exports and trade that one would expect from a conference whose main theme was "Foreign Trade and Investment for Sound Economic Growth."

By the conclusion of the speech of Treasury Secretary Blumenthal, who spoke Nov. 14, it had become clear that a compromise between the Carter Administration and the business community was in the works. Blumenthal sharply reversed his previous talk of "benign neglect" toward the dollar and spoke of a strong dollar, which the U.S. government would defend. In exchange, Blumenthal demanded that the business audience endorse Carter's energy program which, Blumenthal said, "would cut oil imports by 4.5 million berrels per day by 1985." This cut is almost half the level of current U.S. oil imports.

Robert Strauss, this country's chief trade negotiator, was the Administration's main spokesman for protectionism. Strauss told the NFTC audience that "the U.S. will protect its interests at the Tokyo Round of the GATT talks (now underway). If the proposals worked out there are not fair (sic), then I will walk away from the negotiation table."

Selected excerpts of the major speeches follow.

Industrialized Nations' Exports Collapse

(Billions of Dollars)

	Second Quarter	Third Quarter	Percent Change
Industrialized Nations	141,653	156,361	— 9.4%
U.S.	26,609	29,704	—12.2%
Canada	10,321	11,535	—10.5%
Japan	17,152	16,597	+ 3.3%
Belgium	6,843	8,546	—19.9%
France	13,000	15,826	—17.9%
W. Germany	23,765	25,917	— 8.3%
Italy	9,776	9,937	— 1.6%
Netherlands	8,263	9,354	—11.7%
United Kingdom	12,204	12,716	— 4.0%

Source: International Monetary Fund, Nov. 1977 International Financial Statistics

The massive overhang of world indebtedness wrought its ugly handiwork on world trade, plunging it into a new rachet of collapse. In the third quarter, Third World LDC and weaker OECD nations made drastic cuts in imports to meet debt repayment schedules — which also cut deeply into the other side of the world trade ledger, exports.

From the second to the third quarter of 1977, the export levels of the world's industrialized countries plummeted 9.4 percent. Chief among the casualties was the United States, whose exports dropped a staggering 12.2 percent in this period, making the U.S. the major rival to France and Belgium in the basket-case category. A continuation of this dismal performance will mean that the U.S. will never climb out of its massive trade deficit.

To arrive at the figures presented in the above chart, both second and third quarter export figures as reported by the International Monetary Fund's November statistical bulletin were approximately deflated. The steep take-off of world inflation in the third quarter drove dollar-value export levels in that quarter far above actual volume levels of world trade.

The collapse of world exports (and imports) dropped international borrowing levels for the third quarter, as trade financing dropped, and simultaneously increased the ratio of debt refinancing to total world financing.

Carter: Deficits A Fact Of Life

On Nov. 11, President Carter sent a mesage, excerpted below, to the NFTC convention.

...This year the United States faces the prospect of an historic trade deficit of enormous proportions, perhaps as much as $30 billion. The major cause of this deficit is the great price we are paying, and will continue to pay in the foreseeable future, for imported oil.

Until we achieve our goals of greater energy conservation and self-sufficiency in a cost effective manner, *we can expect trade deficits to remain a fact of our national life....*

Blumenthal:

Support Carter Anti-Energy Policy

The keynote address to the NFTC convention, excerpted below, was given by Secretary of the Treasury Blumenthal.

...Through the Economic Policy Group, I am focusing the energies and resources of all Executive Department agencies on finding solutions to the problem. It is important, however, to keep the trade deficit in perspective.

— First, the deficit represents only about one-and-a-half percent of our total GNP.

— Second, the United States possesses today one of the strongest and most rapidly growing economies in the world.

— Third, despite vigilant and continuing scrutiny, we have seen as yet no evidence of signficant deterioration in our relative competitive position.

— Finally, against unfair trade our antidumping and countervailing duty statutes provide a potent recourse to protect domestic industries.

There is, accordingly, no reason for panic and no excuse for reactions in ways that jeopardize the overall health of the U.S. economy or that adversely affect world recovery in general....

...Our exchange rate policy is, as I stated in Houston on October 19, is that a strong U.S. dollar is in the U.S. and international interest, that world economic conditions point to a strong dollar, that a depreciation of the dollar is not required by our trade deficit, that such a depreciation is not an answer to the deficit, that exchange rates should reflect underlying economic and financial conditions and should be permitted to adjust to changes in those underlying conditions, and that we will intervene in foreign markets only to counter disorderly conditions....

Looking to the immediate future, the United States cannot expect to reduce the trade deficit substancially unless we slow the growth of oil imports.

That is precisely the objective of the President's energy program. With a strong emphasis on conservation and incentives for new production, the program would begin reducing our oil import needs rapidly. By 1985, it would reduce projected oil imports by 4.5 million barrels a day — for an annual savings of $23 billion, at today's oil prices.

The energy program is the most urgent priority of this Administration. It is a balanced, fair and effective plan that provides the only real alternative to increasing dependence on foreign oil and, consequently, an increasing trade deficit.

Looking to the longer term, we must recognize that the world trading system will face a number of structural problems.

...The massive increases in energy costs over the last five years have not yet worked their way through the world economy. Second — partly as a result of these higher energy costs, but also of other fundamental developments — world growth rates may well be significantly lower in the last quarter of the twentieth century than they were during the third quarter...

'Wages Inflationary'

At Blumenthal's press conference following his speech, he was asked whether he and the Arabs made a deal on the dollar during Blumenthal's recent Mideast trip — a deal reflected in Blumenthal's sudden strong pro-dollar statements.

Blumenthal answered angrily, "I made no deal with the Arabs or the Europeans. And there has been no change in my public statements about the dollar."

When asked whether some of the Administration's current proposed legislation is inflationary, Blumenthal attacked labor.

"Yes, some actions of government are important in contributing to inflation, such as actions by unions and labor...like the minimum wage bill. What we should ask for is restraint from industry and labor."

Emminger:

I Want A Strong Dollar

The following are excerpts of remarks by Otmar Emminger, President of the Deutsche Bundesbank, before the NFTC.

...Over the last five years, our world economic and financial system has been subject to many severe strains, such as world-wide galloping inflation, the breakdown of the Bretton Woods system, the oil price explosion (which gave cost inflation a further push and generated huge payments disequilibria and financing problems), the worst recession since the thirties, enormous structural shifts and dislocations in world production and trade, and finally, as a consequence of all these as well as other reasons, an obstinate unemployment problem nearly everywhere.

How well has our economic and monetary system stood up to all these strains and challenges? Perhaps the most astonishing thing is the simple fact that our system has *survived* at all...

There have been surprising changes in the international payments scene over the last 12 months...

Distinct progress has been made in *Europe*. If we take **Britain, France and Italy together, their combined balance of payments deficit on current account** amounted to $23 billion in 1974 (the first year after the oil price hike), **$11.5 billion in 1976, and only about $2 billion** in 1977. In the case of Britain, North Sea oil has had a hand in it; but there, as in the other cases, progress has also owed a lot to courageous stabilization policies. There still remains, however, a hard core of smaller European deficit countries which have hardly yet begun to grapple with their acute payments problems — chief among them some Southern European countries. It is to be hoped that the IMF, in advising them and lending **them a helping hand, will have similar success as in the cases of Britain and Italy.**

In parentheses I may add that another group of European countries has recently also made headway in **their balance of payments adjustment, i.e. the countries** of the *Eastern bloc*. They have made a great effort to reduce their trade deficits, mostly by restraining imports...

In another problem area, namely the *non-OPEC developing countries*, **payments troubles have abated and the credit rating of a number of them has improved.** A year ago a number of observers painted the specter of an impending international financial crisis on the wall as a consequence of their payments deficits and external indebtedness. This gloomy view appears in retrospect to have at least in part been a "false alarm". There certainly are a few critical cases where a developing country has reached, or maybe even overstepped, the limits of its borrowing capacity, so that drastic measures have had to be adopted...

My feeling is that international private lending has recently reached magnitudes which should prompt some soul searching. In 1976 international commercial lending, if we take funds obtained through banks and through securities markets together, increased by over ninety billion dollars. That was nearly twice the amount needed in commercial resources for the *financing of all current account deficits* in the world ($75 billion total deficits, minus financing by official assistance and credit, direct investment and trade credit) and nearly ***four times the OPEC surplus* that had to be recycled** through the private markets (a $35 billion "investible surplus", minus direct OPEC loans to deficit countries and international agencies). Thus international lending has extended far beyond what is necessary to ensure the recycling of petro-dollars, and also beyond the need to finance payments deficits. A pause for reflection, and a period of consolidation in international financing would not be out of place...

...The dollar was the **most important undiscussed** problem at the September **Meeting of the IMF.....**

...Now there seems to be **agreement, at least among** those responsible for economic and monetary policy on both sides of the Atlantic, **that the negative aspects of (the American-ed.) deficit are preponderant, that it should be gradually reduced, and that it is of overriding importance to keep the dollar strong, in the interests of both America and the world economy....**

If we are in favor of a strong dollar, it is not only because of our trade interests, but even more because of the pivotal role of the dollar in the world monetary system...

How can this be achieved in practical terms?

To begin with the obvious: Most important, of course, would be a meaningful U.S. energy program, because this would attack the major problem at its roots. Its effect on the U.S. balance of trade will, however, be felt only over the longer run...

The question has been raised whether a deliberate and cooperative management of the exchange rates of the dollar and some other major currencies (such as the Yen, the DMark, and the Swiss Franc) could not make a major contribution to more stability in the world monetary system. In this connection, the setting up of **agreed *target zones* for the exchange rates of major** countries has been suggested. The idea is not new; such target zones were already discussed in the IMF some years ago, and were foreseen as a possibility in the Fund's 1974 Guidelines for managing exchange rates. But I feel that this is a non-starter (as it was in the years after 1974)...

During the transition period until the U.S. current account gets into better shape, an overall payments equilibrium between the U.S. and the rest of the world will have to be ensured by *capital imports into the U.S.* This should not be too difficult. A considerable part of the large current account deficit vis-a-vis the OPEC countries should be self-financing, as these countries in all likelihood will continue to invest part of their surpluses in dollar assets. But to achieve this balancing act through capital imports smoothly, American interest rates will have to remain attractive and confidence in the dollar unimpaired. In the final analysis, the strength of the dollar will depend crucially upon successful anti-inflation policies...

Strauss: U.S. Demands Protectionism

Robert Strauss, U.S. Trade Ambassador, spoke to the NFTC on Nov. 15.

During the 1930s, you may remember, countries said, "let us import less, and export more." It was a time for beggar-thy-neighbor policies. Well those times are here again....

I like to think that I have a good feel for what people are thinking, what the common man is thinking. And let me tell you, the demand for protection has never been stronger in this country. It is strong throughout the Congress. It is hard for a sane voice to not get drowned out.

Some countries have complained about our proposal of anti-dumping codes. They say this will bring on retaliation. Maybe they are right. But what are you going to tell a 60 year-old woman shoe worker when her plant shuts down because of imports. She's too old to retrain, or to go 80 miles to a new job. There is no congressman from a import-struck district that won't demand for me to take action...and they are right, otherwise, they shouldn't and wouldn't be elected.

I'll tell you this, the U.S. wants a fair trade treaty from the Tokyo talks. Fair to the U.S. and the world. But, the U.S. will protect its interests at the Tokyo Round of the GATT talks (now underway). And if the proposals worked out there are not fair (sic), then I will walk away from the negotiations.

(Carter's energy program — ed.) is the single most important way to reduce our trade deficit. This country is unique. It is made up of both oil producers and oil consumers. If the producers like something, the consumers won't and vice versa. Thus, there's going to be something in the energy program that everyone doesn't like. But if we don't get behind the President on this program, we will never succeed in closing our trade deficit or making this country grow.

'The President Has No Inclination For Nuclear Production'

During the question and answer period, a reporter reminded Strauss that Bundesbank president Emminger said the previous day that Germany had closed its trade deficit with the OPEC nations through increased exports — in the nuclear energy field. The reporter asked Strauss, whether the U.S. shouldn't similarly close its trade deficit.

Strauss replied, "That's a simplification. Germany cut it's oil bill and the U.S. hasn't. There is more we could do in the nuclear field. But the president has no inclination for nuclear production, and I agree 100 percent with the president."

Katz: Progress Is Illicit Activity

Julius Katz, Assistant Secretary of State for Economic and Business Affairs, spoke to the NFTC on the subject of "International Investment and Economic Issues in the North-South Dialogue."

...President Carter has spoken out forcefully on the need for dealing with irregular practices and improper conduct, and we believe that an international agreement offers the most effective means for dealing with this problem. We continue to face substantive opposition from the industrialized countries on this issue. The developing countries are attempting to link progress on illicit payments to progress on a general code of conduct — a link that we reject.

We have thus far met with little success in gaining international support for a common approach to the question of illicit payments. We do not intend to abandon this effort. Our domestic legislation is advancing in the Congress and we will be pursuing with other countries the question of an international agreement...

Central to developing country demands in the North-South dialogue is the New International Economic Order (NIEO). The program of action for a New International Economic Order was passed at the Sixth Special Session of the U.N. General Assembly in May 1974 and in the Charter of the Economic Rights and Duties of States...

Over the coming months, we will try to induce greater understanding by industrialized and developing countries that these are the fundamental problems underlying our economic system today. In short, we are trying to change the tenor of the North-South dialogue from one which concentrates on demands for concessions by the industrialized countries to achieve the New International Economic Order, to one which all nations have obligations and from which they can draw benefits through cooperative international action....

Katz: Europe Can't Retaliate Against U.S.

During a question and answer period, Katz responded to a warning by a representative of the European Commission that the Europeans may take retaliatory action against the U.S., if the U.S. adopts anti-dumping codes.

Katz responded excitedly, "The U.S. is too powerful and plays too great a role in the world economy for anyone, any country to try retaliation against us. I'm sure that will never happen...no country could withstand the consequences."

Mitsui President: U.S. Should Help Japan And Developing Asia

Yoshizo Ikeda, President of Mitsui and Company, spoke to the conference on Nov. 15.

...With the investment of far less capital, technology and organizational resources than were devoted to the Apollo trip to the moon, the United States can become one of the most formidable of Japan's competitors in markets all over the world...

...It will be indispensable for Japan to intensify cooperation with U.S.-owned companies abroad, which develop economic opportunities actively all over the world, not only to cement U.S.-Japan trade realtions, but also to contribute to the development of the world economy as a whole.

Mitsui and Company, Ltd. is now in the process of contructing a large-scale petro-chemical complex in Iran, and is procuring from U.S.-owned companies as well as European-owned ones machinery and equipment for that project.

It is my hope that Japan will intensify cooperation with the United States in securing orders for such large projects in the future. In its export strategy hereafter, Japan is required to deversify its markets abroad with large-scale plant business as its nucleus. Recently our company secured an order for a steel mill in Brazil. But this success was due to our having combined the equipment of American and Japanese manufacturers into a package.

For the international development of the U.S.-Japan economic cooperation, the Pacific area will be especially important, that area is more dynamic than any other region of the world, and the focus of the world economy is expected to shift there. The Pacific area has major industrial countries like the United States and Japan as well as middle income countries like South Korea, Taiwan and Singapore which have the potential of high growth, and is endowed with a rich variety of natural resources...

In the Pacific area, the Association of South East Asian Nations, or ASEAN, consisting of Indonesia, Singapore, Malaysia, Thailand and the Philippines, is stepping up its integration through a joint program of industrialization.

Japan wants to render cooperation and assistance to their industrialization but it will be more effective if the United States will join us in our efforts. Japan cannot afford to take total responsibility for the industrialization of the developing countries in Asia...

Change Exim Into Bank For Nuclear Export

The following statement was released on on Nov. 11, 1977 by Criton Zoakos, U.S. Labor Party Director of Intelligence.

In response to the recent series of attacks on the U.S. Import-Export Bank coming from City of London circles, the U.S. Labor Party is proposing to recharter the presently dormant Bank to open up the world markets for United States exporters and to bring U.S. industrial production back to full-employment levels. The USLP's drive to recharter the Exim Bank as a national financial institution in the tradition of Alexander Hamilton aims to put the newly chartered Exim Bank in place by Jan. 1, 1978 when the so-called Rambouillet Agreement expires. To wait until October 1978, when the Bank's current charter expires would be suicidal both for the U.S. dollar and the high-technology, capital-intensive industries of the nation.

BANKING

Labor Party executives and spokesmen, in discussing the relevant issues with industrial, trade-union, and political representatives, will emphasize the following principal points to form the framework inside which the rechartering of the Exim Bank is considered:

First, there is no need for federal agencies to provide new, i.e., inflationary, liquidity in order to stimulate industrial production back to full employment levels. Such liquidity already potentially exists in the form of approximately $300 billion Eurodollars held by foreigners as claims against future U.S. production. This immense source of liquidity must be diverted from its present, destabilizing speculative employment in the world money markets and channeled into financing high-technology, hard-commodity trade-transfers.

Second, the Exim Bank must be reshaped into a policy instrument with the authority to implement trade and credit strategies to accomplish the rechanneling of existing Eurodollars into hard-commodity trade deals. The present status of the Exim Bank as a modest credit-dispensing agency of the federal government must be drastically augmented. The Bank must be given authorization to raise its own capital for the pursuit of its trade expansion objectives. Given the size of annual turnover in the Eurodollar markets, the Bank's capitalization ought to be in the order of $50 to $200 billion dollars — that is, 10 to 40 times its present level of $5 billion. This would give the opportunity to holders of short-term Eurodollars assets such as the OECD central banks and the OPEC nations to convert their holdings into either subscription capital or long-term loans tied to hard-commodity, high-technology trade deals.

Third, the Exim Bank's new charter will explicitly incorporate, as the purpose of the Bank, the principles of industrial and technological growth as articulated by Alexander Hamilton in his Report on Manufactures. The purpose of the Bank will be to mobilize existing world dollar liquidity, namely international Eurodollar liabilities of this nation abroad, to augment world demand for U.S. industrial products and technology. Just as in the case of Alexander Hamilton's First National Bank, the rechartered Exim Bank's purpose will be to transform this nation's liabilities into credit for this nation's industries.