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U.S TRADE POLICY IN THE 1980s: TURNS -- AND ROADS NOT TAKEN

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ABSTRACT

This paper is an assessment of three tilts in U.S. trade policy during the 1980s: minilateralism, managed trade, and Congressional activism. It describes their economic and political causes, and whether or not alternative policy directions might have been possible.

Taking as given the unfavorable macroeconomic environment for trade policy, a few alternatives do seem possible, but only a few. Sectoral minilateralism might have been a feasible replacement for the more aggressive managed trade experiments, e.g., in semiconductors, and earlier Executive Branch initiative in drafting trade legislation of the late 1980s might have blunted some of the sharper edges of the Congressional arsenal in the 1988 act.

Minilateralism is forecast to have mildly liberalizing effects in the near term. The prognosis for the effects of managed trade and Congressional activism is decidedly more mixed.

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CONTENTS

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I. INTRODUCTION

This paper is an assessment of turning points in U.S. trade policy during the 1980s, of their economic and political causes, and of whether or not there might have been other roads not taken. It is not a detailed political economic history,[1] and is purposely selective in its treatment.

Part II describes the unfavorable U.S. trade-policy environment of the 1980s, and U.S. policy responses to it, emphasizing three significant new "tilts' -- minilateralism, managed trade, and Congressional activism. Part III assesses alternative courses of action, how outcomes might have differed, and what the risks might have been. Part IV briefly sizes the

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[1]Destler (1986) is the political-economic-historical Bible for 1980-86 and roots from the 1970s. Destler (1990) updates the earlier work. Pearson (1989) is a briefer but also comprehensive evaluation of the period 1980-88. See also still briefer treatments by Baldwin (1990), Deardorff (1989), Niskanen (1988, pp.137-154) and Vernon and Spar (1989, Ch.3).

trade-policy actions and alternatives described earlier.[2]

[2]Members of the U.S. trade-policy community have been extraordinarily helpful in preparing this assessment. Many are still active in the government. They are referred to below, without attribution, as "sources" or "commentators".

II. WHAT HAPPENED IN THE 1980s: A REVIEW

There is a difference of opinion among commentators on U.S. trade policy in the 1980s. At one extreme is the "devil-made-me-do-it" camp. It believes that laudable trade-policy intentions of the Reagan Administration were overwhelmed by unfavorable circumstances. It grants that some of those circumstances were of the Administration's own macroeconomic making, yet observes that others were historical legacies and random bad luck. Niskanen's (1988, p.137) view verges toward this camp:

> Trade policy in the Reagan administration is best described as a strategic retreat. The consistent goal of the president was free trade, both in the United States and abroad. In response to domestic political pressure, however, the administration imposed more new restraints on trade than any administration since Hoover. A strategic retreat is regarded as the most difficult military maneuver and may be better than the most likely alternative, but it is not a satisfactory outcome.

Another commentator has remarked similarly, "unprecedented pressures breed unprecedented reactions."

At the other extreme is the "venality" camp. It turns the quotation on its head: "unprincipled trade policy invites unprecedented trade-policy pressures." Verging toward this point of view is Pearson (1989, pp.36, 65):

> The record of the Reagan administration in resisting new import protection is weak....[And on the export side],...The same administration that has taken a restrictive view of government's role in domestic unfair trade--for example, the antitrust area--has had few reservations about seeking out and challenging

foreign unfair trade practices. The explanation would appear to be in a trade policy grounded in pragmatic politics, not in principle.

Regardless of camp, all commentators agree that environmental circumstances and policy intentions cohabit to produce policy responses. Deardorff (1989, pp. 20-22), citing Baldwin (1982), describes this as the crossing of the demand for protection with its supply.

In that spirit, part II first summarizes the U.S. trade-policy environment of the 1980s, and then the U.S. trade-policy responses.

A. Trade-Policy Environments

1. The Historical Environment. The trade - policy environment of the 1980s inherited and accentuated several legacies from the 1970s. Chief among them in the United States was growing sensitivity to trade policy as domestic policy, not just foreign policy, and to the U.S. spillovers of industrial policy abroad, which was often perceived to be unfair.

Growing U.S. sensitivity to the domestic effects of trade policy reflected growing U.S. dependence on exports and imports, the decline in U.S. hegemonic and market power,[3] and a decreasing need for trade policy to function as foreign policy as

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[3]Baldwin (1990, pp. 10-12), Richardson (1984, pp. 1-2), among many others.

the Cold War cooled. The average of goods and services exported and those imported stood at over 12 percent of U.S. gross national product in 1980: it had been just over 6 percent in 1970. But it showed almost no further rise in the 80s, standing still at just over 12 percent in 1989.

The Organization of Petroleum Exporting Countries (OPEC) had shaken U.S. - led Western hegemony in the 1970s. It set the stage for macroeconomic policy reversal in the early 1980s as a result of its massive 1979-80 increase in contract oil prices. U.S. unemployment surged from 5.8 to 7.0 percent between 1979 and 1980, and inflation rose from 11.3 to 13.5 percent[4] with fears of further stagflationary after-shocks from OPEC's action. Macroeconomic policy was about to change radically, and with it, trade policy.

OPEC's ideological and creditor support for developing-country industrialization also helped to produce the first fruit of "newly industrializing country" (NIC) export success.[5] Industrial targeting and subsidies were growing not only in the NICs, but in developed countries as well, as governments debated the merits of industrial policy and wrestled with structural change forced by energy prices and NIC success.[6] Sectoral surge

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[4]This is the year-to-year change in the consumer price index for all items; 1978's inflation rate had been 7.7 percent.

[5]See, for example, the first comprehensive report on the phenomenon in OECD (1979).

[6]A recent paper on the history of industrial subsidies in the OECD is Ford and Suyker (1990). On industrial policy, CBO (1983) is a useful survey.

and collapse spilled across borders as world trade continued to grow faster that world output during the 1970s.

U.S. trade policy in the 1970s was becoming more and more sensitive to perceptions of "unfair" trade. Both the Trade Act of 1974, authorizing U.S. participation in the Tokyo Round, and the Trade Agreements Act of 1979, implementing its agreements, facilitated the quest for "relief" from unfair trade practices abroad. Relief was delivered by various barriers to trade. By the 1980s what had been sensitivity became certainty[7], and U.S. trade policy increasingly accepted the mandate of facilitating "free but fair" trade, not just free trade.[8]

The Tokyo Round itself had a strong core of fair-trade activism, with its codes on dumping, subsidies, government procurement, customs-valuation and import-licensing procedures. U.S. expectations for success of the codes ranged from cautious optimism to skepticism in the early 1980s. But events were soon to overwhelm the impact of even the more successful codes[9], so that the United States entered the 1980s not only suspicious of pervasive "unfair" trade, but suspicious of betrayal, too. The raw undercurrents were that codes should have ameliorated the inequities, but didn't; that our trading partners were not only

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[7]See Baldwin (1990, pp. 14-17), Hufbauer (1989, pp. 125-128), or Pearson (1989, pp. 72-75), among others.

[8]Ronald Reagan in essence baptized the mandate in his "free but fair" speech in September 1985.

[9]Grieco (1990, especially Chapters 3-5) is one of the most recent and comprehensive assessments of the Tokyo Round codes. See also Stern, Jackson, and Hoekman (1986) or Foster (1983).

unfair, but deceitful; that "once burned (by GATT agreements), twice shy." U.S. fair-trade activism, born in the 1970s, was to reach adolescent self-confidence in the 1980s[10].

2. The Economic Environment. The economic environment for U.S. trade policy in the 1980s was dominated by the dramatic decline and sluggish recovery of the U.S. balance of trade. The trade balance in turn was influenced by the sharp early-80s and mid-80s breaks in monetary, fiscal, and foreign-exchange policies, and by the shifting ideologies that prompted them. Also important, but secondary, were perceived changes in the structure of U.S. trade: apparent losses of competitive advantage in manufactures, especially high-technology manufactures; inadequate and dubious gains of competitive advantage in business services; increasing specialization on narrow product varieties and outsourcing. A third economic influence toward the end of the period was the re-acceleration of foreign direct investment in the United States, especially through takeovers.

The story of the U.S. trade balance in the 1980s is familiar, though involved. Its main features are best summarized in the paper on exchange-rate policy by Frankel (1990) for this volume, although its deeper roots are in the companion papers on

[10]It is curious, as Pearson (1989, pp. 72-75) remarks that this legacy of the 1970s is almost entirely perception. There is no evidence that world trade has become any less fair on average during the 1970s or 1980s, nor less fair toward the United States. Nor is there any evidence that U.S. trade practices are fairer than those of its trading partners on average.

macroeconomic policies by Mussa (1990) and Poterba (1990).

U.S. trade policy in the 1980s ended up a weak and unwilling handmaiden to macroeconomics. It was forced into trying to do what macroeconomic policy could or would not do, and has been ultimately unsuccessful in the attempt. The trade balance deteriorated precipitously in the early 1980s, as shown in Figure 1. Pressures to protect devastated U.S. industries and regions (especially the industrial "rust belt" in the mid-Atlantic and Midwest states) reached feverish intensity. U.S. trade officials tried to diffuse these pressures and to bandage together a wounded pro-trade constituency by export-market-opening initiatives. But they were constantly fighting a rear-guard action.[11] Protectionist and market-opening pressures receded only mildly in the later 1980s as the trade balance itself was slow to recover in response to macroeconomic and exchange-rate reversals, as shown also in Figure 1.[12]

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[11]They were also fighting against the conclusion of most economic research that trade policies have unpredictable and only fairly small effects on the trade balance in the long run (after prices and exchange rates respond fully). See, for an early discussion of the point, McCulloch and Richardson (1986). Though this was widely understood, its force was vitiated by the urgency of political pressures and the belief that short-run effects of protection and export promotion were favorable. "Favorable to what?" was a question rarely addressed. Not likely to unemployment rates, which declined steadily from 9.5 percent in 1982-83 to near 5 percent as the decade closed.

[12]The real trade balance, purged of price effects, recovered much more quickly than the dollar trade balance in the late 1980s. Although this was well known, it could be quantitatively assessed only with a significant six-to-nine month lag. Monthly figures, on which much of the trade-policy community hung, became available on a price-adjusted basis only in late 1989.

Changing trade structure also played an important role, although its influence was hard to separate from trade balance. Perceptions of impending loss of production capability in manufactures buttressed the case for protecting autos, steel, semiconductor chips, and machine tools, discussed below. Export-promotion initiatives for high-technology products and services were buttressed by perceptions of unfair market blockage abroad and subsidies to local competitors. Figure 2 illustrates the plight of several familiar industries in the early 1980s. The import share shoots up for all, sometimes doubling in a mere four-year span. Export shares decline less precipitously (construction machinery and home appliances lose dramatically, however), but in almost every case fall.

Figure 3, however, shows how perceived structural shifts in U.S. trade over the entire 1980s were probably overstated. The high-technology manufacturing trade surplus has more than rebounded from its mid-80s slump; it exceeds the surplus of the early 1980s. The trade surplus in capital goods has almost fully recovered its level of the early 1980s. Non-food consumer goods, including autos, have been most sluggish to recover, yet even they show signs of partial restoration. The trade surplus in business services, largely high-technology services,[13] has indeed taken off, as perceptions suggested. But the structural

[13]Business services include construction, engineering, architecture, consulting, brokerage, communications and reinsurance, management, professional and technical services, research and development assessments, and miscellaneous other services.

shifts seem less significant a part of the trade-policy environment at the end of the 1980s than they did in the middle.

Finally, Table 1 documents the increased prominence of foreign direct investment in the U.S. economy[14]. Towards the end of the 1980s this aspect of the economic environment directly influenced important provisions of the Omnibus Trade and Competitiveness Act of 1988. It also increased U.S. weight on TRIMs (Trade-Related Investment Measures) in the Uruguay-Round negotiations.

A sense of even greater unfairness may be growing in the U.S. trade-policy community as the 1990s begin. The U.S. is seen as having had virtual free trade in "corporate control", unlike its trading partners. Yet in this view it is not clear how the U.S. national interest is served by allowing open market access to foreign direct investors here while their governments encumber U.S. investors abroad with barriers to entry and merger/takeover, and with performance requirements concerning exports, imports, technology transfer, and local staffing/supplier relationships. The investment aspect of the trade-policy environment of the 1980s is likely to be one of the decade's legacies to the 1990s.[15]

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[14]Deardorff (1989, pp. 17-18) and many others argue that the threat of protectionist U.S. trade policy has contributed to the acceleration of direct investment in the United States.

[15]For example, Levinson (1987) and Reich (1990) have both observed the anomalies that can arise when U.S. protection and trade promotion policies benefit resident affiliates of foreign-owned firms, sometimes at the expense of overseas affiliates of U.S. owned firms. Traditional policies toward dumping, subsidies,

3. Ideologies, Institutions, Personalities. U.S. trade policy was also influenced by the personalities, institutions and ideologies of the 1980s. This was true not only in the timing of trade-policy feints and thrusts, but in their direction and intensity as well. Three groups were involved, in descending importance: the Executive Branch, Congress, and academics.

In both Reagan and Bush Administrations, three ideologies were continually represented, but with varying influence: traditional liberal trade ideology, pragmatic political economy, and managed-trade activism. The Council of Economic Advisers most consistently embodied the first (as usual). The Office of the U.S. Trade Representative (USTR), the White House staff, and James Baker personally (no matter where housed) most consistently embodied the second (as usual). The Commerce Department most consistently embodied the third (as usual). Traditional liberal-trade ideology seemed in ascendance very early in the 1980s, as it was reasonably consistent with the Administration's ubiquitous pro-market pressure.[16] But it was not very consistent with

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and import surges may become increasingly irrelevant if multinational ownership, inter-firm joint ventures, and cross-penetration of markets continue to grow. See, for example, "Some Big U.S. Companies Favor Loosening Anti-Dumping Laws," Wall Street Journal, August 31, 1990, p. A2.

[16]But it was far away from the "unilateral" free-trade ideology voiced by David Stockman in his ruminations (1987, pp. 168, 169, 171).

> Free trade is merely an extension of free enterprise; free markets don't stop at the border. But here was a cabinet officer [Drew Lewis] talking protectionism [auto import restrictions] in the White House, not two months into the administration...Don Regan, who was a

either the government's legal obligation for trade intervention in well-defined cases of injury or inequity, nor with the macroeconomic devolution that seemed at the time to be making such cases the rule and not the exception. When the GATT Ministerial Meeting of November 1982 (described below) produced only acrimony and meager results, traditional liberal-trade ideology lost initiative and influence.[17] For a time, the vacuum was filled with mild, then more ambitious experiments with managed trade (new voluntary restraint arrangements, new Section 301 initiatives, and the semiconductor agreement, described below). Martin Feldstein and George Schultz resisted these initiatives strongly from liberal-trade perspectives, and with persuasive arguments that the trade deficit was due to

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> stout free trader, was as mad as I'd ever seen him. Steam was coming out his ears. Murray Weidenbaum didn't show any steam, but he was upset, too...Industrial policy [such as auto protection] therefore sought to use the subsidy, trade and legal powers of the state to sustain industries that could no longer sustain themselves. Industrial policy replaced the test of the marketplace with raw political power. It locked in obsolete labor and capital to unproductive use. It impoverished society. It was the antithesis of supply side.

This extreme textbook view never held any ideological sway, even in the early Reagan Administration.

[17]William E. Brock as USTR was in any case an uneasy spokesman for liberal-trade ideology. Besides the "brokering" nature of his office, he was not part of the ideological inner circle of the early Reagan team, and was under lingering suspicion of pragmatism from his service as Republican National Chairman. But no one else among the top advisors of the early Reagan Administration had significant international vision or sensitivity, and even those with the most sensitivity underestimated the spillover of domestic policy into international competitiveness and the trade balance.

macroeconomic policies at home, not unfair trade policies abroad. Managed-trade proponents could claim no clear victories by 1985 as James Baker and the political-economy realists exerted control.[18] The ongoing history of their experimental managed-trade agreements in the late 1980s has provided no strong support for managed trade activism. Political-economy realists have dominated trade policy in the Executive Branch since that time.

To the extent that a 535-member, two-party body can be said to have a personality or ideology, Congress tried to fill the Executive Branch vacuum of 1983-1985. It began to take atypical initiative in trade-policy developments. The initiative accelerated until 1985 when the dollar began declining, with the Plaza Agreement and monetary ease ratifying its decline. But the momentum of Congressional trade-policy activism continued through the 1988 passage of the Omnibus Trade and Competitiveness Act,[19] when Congress returned to its more passive and customary role as a sort of board of directors for the Executive's management of trade policy. Congressional activism might be best characterized today as "in remission." It could rise again in the 1990s, especially in the absence of an unexpectedly attractive outcome

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[18]It is more accurate to suggest that they were influenced by Congressional activism, described below, to exert control. Destler and Henning (1990, pp.104-107) describe the inherent inconsistency of laisser faire ideology in both trade and the foreign exchange market, given the macroeconomic picture. "When the Congress forced it to choose, the Reagan Administration... preferred a regulated exchange market over regulated traded-goods markets."(p. 106).

[19]Ahearn's and Reifman's (1984, 1986, 1988) chronicles are the best account of the ebb and flow described here.

to the Uruguay Round. This, too, may be a 1980s legacy to the 1990s.

Finally, academic personality and ideology at least mildly supported U.S. trade policy shifts of the 1980s. The growth of "strategic trade policy" research and perspective afforded politicians and lobbyists the chance in some cases to support their constituencies and self-interest intellectually.[20] More importantly, it undermined the moral force of traditional academic consensus on the near-unconditional merits of liberal trade policy. It held out for a more pragmatic approach, leaning presumptively toward liberal policies, but not unconditionally. In strategic trade policy perspectives, the grounds for policy activism overlapped substantially with antitrust and technology policy activism: trade protection/promotion in some cases when it might encourage innovation, e.g. by better protecting intellectual property, or in some cases where it might significantly vitiate injurious market power, e.g. by encouraging entry of new firms, or by blocking predation on viable incumbent firms.

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[20]"New Theory Backs Some Protectionism" was the headline of a September 1985 New York Times article. Of the many surveys of strategic trade-policy perspectives, Krugman's (1987) and Levinson's (1988) are especially cogent and accessible. the approach assesses the case for and against active trade policy in a world of imperfect (instead of perfect) competition among firms and reactive (instead of passive) trading partner governments.

B. The Policy Responses.

The U.S. trade-policy response to these environmental influences and pressures in the 1980s was a two-part mix. One part was increased recourse to the normal channels of protection and promotion of market access. The second part was turns ("tilts" is more accurate) toward three qualitatively new emphases in U.S. post-World War II tradition.[21]

Table 2 summarizes the increased recourse to normal trade-policy channels as the U.S. trade balance plummeted. Petitions for trade-policy relief in 1981-85 almost doubled from their late 70s averages, although the percentage that were successful remains fairly constant at 22 percent.[22] Actually the "success" rate was higher, because some allegedly unsuccessful petitions (most dramatically the steel industry's 1984 election-year 201 petition) were granted through ad hoc managed-trade alternatives, described below. It is striking in Table 2 to see how tightly the number of cases filed tracks the macroeconomic cycle, peaking at its trough in 1982. There is also a second peak in most series in 1984 or 1985 as the dollar soared still higher and the trade balance slumped still lower, even though strong macroeconomic performance had returned. Petitions then decelerate

[21]Each of the turns, however, have antecedents and parallels in U.S. pre-war tradition.

[22]Deardorff's (1989, Table 6) figures from John A. Jackson's trade action database yield success rates of 22.2 percent in 1975-80 and 22.7 percent in 1981-85.

in 1986-88 (especially in 1988, not shown), as the dollar returns to earth and Congressional trade-policy initiative mounts. But the "success" rate doubles to 45 percent in the later period.

It is also striking to see the near total eclipse of "neutral" recourse to trade policy relief (Section 201 petitions) by unfair-trade petitions that villainize trading partners. From 89 percent of all petitions filed in 1975-80, unfair trade petitions rise to 98 percent in 1981-85, and remain at 97 percent even afterwards.

Accentuated trade-policy activism against unfair practices abroad are not merely U.S. phenomena, however. Table 3 reveals nearly the same trends -- accentuation and villainization -- in Australia, Canada, and the European Community. What <u>was</u> perhaps new in the 1980s was that the United States became just "one of the gang" in its practice of trade policy.

"Becoming one of the gang" is also the way to characterize the first two of the three new tilts in U.S. trade policy during the 1980s. In the first, the United States turned toward more "minilateral" initiatives. Minilateral initiatives are those that involve less than the full complement of trading partners. They include regional trade-liberalization initiatives and "grievance minilaterals", such as the Structural Impediments Initiative with Japan. The essence of all minilateral arrangements is that they are preferential, or potentially so. The United States essentially began practicing in the 1980s what it preached against in the 1960s and 1970s: preferential trading arrangements, a much more typical aspect of European-Community and British Commonwealth trade relations, and of the Generalized Systems of Preferences for developing countries. This new tilt is summarized in Table 4 and discussed further in Section 1.

The United States turned secondly toward managed-trade initiatives in the 1980s, ranging from mild to moderate experimentation. Managed trade initiatives insert government agencies into regular international market transactions as regulators or monitors. Among the milder managed trade experiments were voluntary restraint arrangements on machine tools. The most thoroughgoing experiment was the semiconductor chip agreement with Japan. Although trade management is perceived in the United States to be "what our trading partners do", neither the allegation nor their alleged success at it is easy to demonstrate. It is arguable from U.S. experimentation in the 80s that we do it "less well," but it is not clear whether this is vice or virtue. Managed-trade initiatives are summarized in Table 5 and discussed further in Section 2.

In the third tilt of U.S. trade policy in the 1980s, Congress became a more active and directive participant. The unique American separation of government powers has historically divided the initiatives most relevant to trade policy, assigning to the Congress initiative on taxation, including tariffs, and assigning to the Executive Branch initiative to make treaties (with Congressional consent).

For 50 years, however, since the advent of the Trade

Agreements Program, Congress ceded much of its broad trade-policy initiative to the Executive.[23] In the 1980s, Congress began reasserting itself into U.S. trade policy as an independent player. It became a much more active monitor and director of USTR and of the general management of trade policy by the Executive Branch. It became an initiator of significant trade-policy legislation and not just the sounding board for and ornamentor of Administration-initiated bills. Its accelerated activism, discussed in Section 3, is summarized in Table 6 and enshrined in the Omnibus Trade and Competitiveness Act of 1988.

1. The Turn Toward Minilateralism. The minilateral turn in U.S. trade policy in the 1980s has been the most enduring of the three "tilts". Although the turn towards managed trade began earlier in the decade, it was on hold in the later 80s. Congressional activism surged in the middle 80s, and then decelerated in the wake of the 1988 trade bill and the commencement of Uruguay-Round negotiations.

U.S. minilateralism was born in the aftermath of the GATT Ministerial Meetings of November 1982.[24] Ministerial meetings are traditionally called to begin each round of the multilateral trade negotiations for which the GATT has been renowned. The 1982 meeting was the first since 1973, the beginning of the Tokyo

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[23] Congress has kept, naturally, its initiative to draft narrow, special-protection bills when necessary. See, for discussion, Baldwin (1985, Ch.2,4) or Destler (1986, Ch.2,4).

[24] So, ironically, was the Uruguay Round of negotiations and the successful 1986 Ministerial Meeting that mandated it.

Round.

The 1982 meeting was largely a U.S. initiative. USTR officials had been working since the close of the Tokyo Round on an agenda for a new round. The agenda was sensibly made up of thorny "old chestnut" issues -- agriculture and safeguards, especially -- and "new issues" such as rules for rapidly expanding trade in business services and high-technology goods. The shape of this agenda had been presented and discussed at the annual OECD Ministerial Meetings for several years, but without any commitment to act, nor perhaps adequate U.S. consultation over the agenda itself. Yet the United States pressed quite hard to obtain such a commitment (for November 1982) at the July 1981 Ottawa economic summit[25] of leaders of the largest seven industrial countries. Within the Administration at the time it seemed not only "natural", but supportive of the strong ideological thrust toward freer markets. Trading partners, however, clearly felt pressured, not coaxed. They were more now the equal of the United States, and naturally sought consensus over being coerced.

In the event, the timing was at best inauspicious. Sixteen months' preparation was less than for the Tokyo Round, although the agenda was broader. Unknown to the leaders in mid-1981, the world was then at the portal of the deepest global recession since the Great Depression; November 1982 was approximately the trough!

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[25]Rubin and Graham (1983, p.11).

The result was footdragging and acrimony of an intensity rarely seen even in these naturally intense ministerial meetings. The European Community was especially resistant to agricultural liberalization; India and other developing countries were dead set against services liberalization; all accused the United States of ramming its agenda onto the table without adequate documentation, interpretation, persuasion or quid pro quo. The meeting dissolved in bitter frustration after mandating further study of agricultural liberalization, and sanctioning national studies of services, to be coordinated by the GATT.[26] A representative summary of the outcome is Rubin's and Graham's (1983, p.11):

> ...it was a U.S. show from beginning to end. It represented the best and the worst of the American approach to such things -- the best, because it was an earnest attempt to lead a faltering trading system and reluctant trading partners forward into important new areas; the worst, because it was too ambitious, and it raised among political constituencies unrealistic expectations that could not be met, leaving them disillusioned with GATT and determined to take corrective trade-restrictive actions in the 98th Congress.

U.S. trade-policy officials were themselves "disillusioned with GATT" after this experience. While committed to ongoing

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[26]Some commentators suggest that these studies were really what the United States wanted from the Ministerial in the first place, and not (yet) any ministerial commitment to a new multilateral round. If so, the 1982 Ministerial would have been setting a new precedent for early involvement by ministers. And there is some indication (e.g. Aho and Aronson (1985)) that the "study only" objective was Plan B when, it became clear early in 1982 that Plan A would fail because of hostile trading partners and environments.

liberalization, GATT Rounds seemed a cumbersome and unpredictable vehicle. Reflective evaluation and opportunity seemed to recommend a two-handed approach that could be called contingent multilateralism, or more descriptively "multilateralism where possible, minilateralism where necessary". The United States would continue to push for a new GATT round covering important old and new issues. But it would simultaneously respond to minilateral opportunities as a supplementary insurance policy against multilateral failure.[27]

Minilateral opportunities would of course include regional

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[27]The change is visible between the President's (1982) and (1986) reports on the Trade Agreements Program. The 1982 report said (p. 2),

> The United States remains committed to the multilateral system of the GATT as the primary vehicle for the realization of its own interests and those of other trading nations. Thus, the United States gives the highest priority to the deliberations and negotiations to be conducted in the upcoming GATT Ministerial meeting.

The 1986 report said (p. 61),

> The United States remains committed to GATT and the multilateral negotiation process. There are gains to be achieved through its discussions that cannot be achieved in other forums...
>
> Nevertheless, multilateral negotiations are not an end in themselves...
>
> America has decided to pursue trade liberalization opportunities wherever and whenever they exist, whether in a multilateral, plurilateral or bilateral context...
>
> The purpose of this strategy is not to supplant but rather to supplement GATT. By providing examples of the types of agreements possible and benefits promised, America believes bilateral and plurilateral negotiations can serve as a useful step toward achieving a multilateral consensus.

trade liberalization. The Trade and Tariff Act of 1984 included authorization for the President to negotiate bilateral free trade areas. But minilateralism would also include "grievance" negotiations, aimed at sensitizing trading partners to issues concerning U.S. market access, especially in services, agriculture and high-technology products. USTR officials first encouraged Section 301 petitions as a way of carrying out these "grievance minilaterals," and subsequently developed the Market-Oriented Sector-Selective (MOSS) approach to Japan over the period 1985-86.[28] The most elaborate of the grievance minilaterals, the Structural Impediments Initiative (SII), is discussed in Section 3 below.

Out of the liberalizing minilateral spirit in the mid-1980s came the Caribbean Basin Initiative (CBI) of 1984, the United States-Israel Free Trade Area of 1985, and the Canada-United States Free Trade Agreement of 1989. Each successive regional initiative was more important than the previous one. The CBI was a tightly-constrained "aid-through-(preferential)-trade" arrangement. The agreement with Israel was a longstanding foreign-policy initiative on the Congressional back burner that conveniently allowed the United States to signal to trading partners that it really was serious. But it also included liberalization provisions in services. The Canada-United States

[28]These sectoral negotiations covered telecommunications, pharmaceutical, medical and electronic equipment, and forest products. See Pearson (1989, p.49), Destler (1986, pp.233-234), and Prestowitz (1989, pp.480-485).

Agreement took more than three years to negotiate, and was a GATT-defensible, across-the-board initiative between countries that were each other's dominant trading partner. Its innovations included: liberalizing coverage of most services, trade-related investment matters (TRIMs), and some trade-related intellectual property (TRIPs) concerns in pharmaceuticals; innovative dispute-settlement institutions; and ongoing negotiations over subsidies. All of the items were at the same time special concerns of the United States in the multilateral Uruguay Round.

The Bush Administration has continued the two-handed strategy of multilateralism and minilateralism. It has been an active initiator in the Uruguay Round. It has implemented the institutionalization of grievance bilaterals in the "Super 301", "Special 301," and telecommunications provisions of the 1988 Trade Act, described below. It has actively encouraged Mexico in planning to authorize 1991 negotiation for a free trade area to encompass all three North American countries. And it has publicly probed the potential for a hemispheric free trade area in its 1990 "Enterprise For the Americas" initiative.

2. The Turn Toward Managed Trade. The United States turned toward managed trade in the early 1980s for automobiles, machine tools, steel and semiconductor chips. Managed-trade initiatives for the first two covered substantial trade, yet were mild. They amounted to negotiated export restraint arrangements with varying degrees of supplier coverage. The managed-trade initiative for

chips was, by contrast, more ambitious, involving target market shares beyond U.S. boundaries and other third-country practices. Export restraint arrangements in steel, of course, had roots in the 1970s and earlier, but were expanded in the 1980s. Significant for the same reason was U.S. tightening of textile/apparel quotas and rules of origin in 1983-84.[29]

Most important in the turn toward managed trade experiments, was the deterioration of the economic environment -- the deep 1981-82 recession, the soaring 1980-85 dollar, and the slumping 1980-87 trade balance. Of secondary importance was the frustration of the 1982 GATT Ministerial. This caused USTR William Brock to lose impetus and influence within the Reagan economic leadership. It was only natural for U.S. Commerce Department activists to find their position, agenda, and established business constituency enhanced.[30]

Managed-trade experimentation stabilized or diminished in the late 1980s, as the economic environment improved, as USTR became itself more aggressive and Congress more active, and as managed-trade experience was assessed to be mixed at best. Yet it remains dormant, rather than defeated, and could easily rise again with economic downturn, Uruguay-Round failure, or election

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[29]The only development in the 1980s cutting against the managed-trade grain was President Reagan's decision in 1981 not to renew Orderly Marketing Agreements for footwear with Taiwan and South Korea.

[30]Niskanen (1988, p. 298) quips that Malcolm Baldridge, Reagan's first Commerce Secretary, "never met an import restraint that he did not like."

of a Democratic President in 1992.[31]

Voluntary export restraints are the mildest form of trade management, in which an importing country cajoles a supplier government into serving as an agent of the importer government. The agent government is charged with "managing" (moderating) the surge of supplies to the importer, whose government is in essence a passive manager, suggesting targets and monitoring the results. As is well known, VRAs are questionably compatible with GATT conventions because of their similarity to quantitative import barriers and selectivity.[32] Yet their political-economic features are in some ways attractive. They can compensate an exporting country's government and/or firms with implicit revenues from being able to raise prices on reduced sales. They are inherently temporary (degressive), since they invite a panoply of avoidance measures that gradually bleed away their effectiveness.[33] From these points of view, they are very similar to a selective, temporary safeguard with compensation. In essence that is what they have become, as virtually all countries have reduced their recourse to traditional fair-trade import-

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[31]See, for recent statements of the case for managed trade -- trade "by results, not rules,"--ACTPN (1989) or Tyson (1990).

[32]See Jackson (1988).

[33]Avoidance measures include foreign direct investment in the importing country, diversion of shipments through unrestrained third countries, quality upgrading or downgrading, and changes in the degree of fabrication.

relief remedies (see Table 3).[34] The main liabilities of VRAs are their anti-competitive features: their blunting of incentives to compete on price or innovate to reduce costs; their invitation to super-national regulation and cartel-like market sharing among incumbent firms, often at the expense of new entrants (their discriminatory selectivity, sometimes alleged to be a liability, lasts only as long as the arrangements themselves are efficacious).[35]

Before the 1980s, the United States' own recourse to quantitative and managed-trade policies was small compared to its trading partners. During the 1980s, the U.S. ceased to be an outlier. Voluntary restraint arrangements for passenger cars and carbon steel were negotiated in 1981 and 1985-86, respectively. The auto VRA covered Japan only, but the steel VRAs initially covered nineteen countries, and eventually more, nearly all important suppliers to the U.S. market. Each had in the background a failed escape-clause (Section 201) petition for relief from injury from fair trade. The International Trade Commission (ITC) turned down a petition for relief from Ford and the United Auto Workers in November 1980. Just before the 1984

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[34]The Reagan Administration did grant escape-clause (Section 201) relief to four comparatively small industries: mushrooms, motorcycles, stainless steel, and wood shakes and shingles (Pearson (1989), pp. 22-24).

[35]For example, small Japanese auto firms were likely losers from the U.S. voluntary restraint arrangements with Japan, in contrast to large firms. On the other hand, the same arrangements may have increased entry to the U.S. market by Korean and Taiwanese suppliers.

election President Reagan "turned down" an ITC recommendation for steel relief, while in the same breath mandating the sweeping VRAs that, from the industry's point of view, were even better. The 1985-86 steel VRAs revised and expanded the coverage of VRAs negotiated with the European Community in 1982 after the U.S. industry had "delivered to the Commerce Department, on a single day, 494 boxes containing 3 million pages of documentation for 132 countervailing duty antidumping petitions, mainly against European exporters."[36]

Unlike the auto VRAs, the steel VRAs negotiated target market shares rather than a numerical limit, and ultimately included all important suppliers. This virtually guarantees cartel-like behavior and closure of some of the more obvious VRA-avoidance channels. Auto VRAs ceased to bind in 1987-88, as Japanese quality upgrading and investment in "transplants" in the United States rebuilt and increased Japanese shares of auto sales without violating the trade barrier.[37] Steel VRAs, by contrast, were renewed with minor adjustments by President Bush in late 1989, but for two and a half years only, instead of five, and with a strong verbal commitment to negotiate -- multilaterally--

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[36]Destler (1990, pp.23-24).

[37]Assessments of the auto VRAs such as those of Collyns and Dunaway (1987) imply that U.S. consumers paid an extremely high price for temporary protection of the big three U.S. firms, that went more than originally hoped into higher prices and profits, and less into volume, quality, employment, and wages. Sources suggest a distinct cooling in Congressional support for the big three U.S. firms toward the end of the 1980s.

their complete phase-out in the interim.[38]

Machine tool VRAs were negotiated in 1986 after the Commerce Department ruled in 1985 that (fair-trade) imports were presenting a threat to U.S. national security.[39] A 1983 petition on similar grounds had been rejected. Machine tool VRAs, like those for steel, set rigid market-share targets for imports. Like those for autos, however, they cover only certain suppliers -- Japan and Taiwan. Germany and Switzerland explicitly refused to negotiate VRAs, so the U.S. very publicly "monitors" their exports, as well as those of other suppliers. In this context, monitoring is to free trade roughly what parole is to a free ex-convict!

The 1986 Semiconductor Agreement with Japan was managed trade of a different color and deeper intensity. It consolidated the antidumping petitions of U.S. firms like Micron, competing with Japanese chipmakers in sales to the U.S. market, and the market-access (Section 301) petitions of U.S. firms like Texas Instruments, competing through its Japanese operations with Japanese chip makers in sales in Japan (and elsewhere).[40] In an attempt to please all petitioners, the U.S. leaned on Japan to monitor (raise) its firms' chip prices in the U.S. and third-

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[38]These negotiations are linked to the outcome of the Uruguay Round.

[39]Section 232 of the Trade Act of 1962 is the national-security route to relief from fair trade.

[40]See Destler (1990, pp.34-38) and Prestowitz (1989, Ch.2) for discussion.

country markets, and to work to allow U.S. firms a 20 percent share of the Japanese chip market by 1991. To the rest of the world this looked like classic cartel bullying. Third-country price maintenance/monitoring was for all purposes extraterritorial price fixing, especially heinous to countries that were heavy users of chips, but not producers.[41] Market-share insurance in the Japanese chip market was for all purposes pre-emptive market splitting against European and other producers.[42] The U.S. defense was that its chipmakers' lives were on the line; here, if anywhere, was a classic case of predatory dumping along with predatory denial of market access; U.S. firms were the prey.

Whatever the merits of this defense, no commentators consider the Semiconductor Agreement a managed-trade success. In 1987, the U.S. retaliated against Japan for failure to enforce the agreement adequately, with some subsequent softening but not removal of the punitive retaliatory tariffs. U.S. market share in the Japanese market is today nowhere near 20 percent, and extreme volatility has characterized chip prices in Japan and chip availability in the United States and other markets.

In light of the experiments with managed trade, the 1980s

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[41]Their situation is why the GATT insists that only an importer government has the right to decide whether or not to levy antidumping duties.

[42]Europe subsequently negotiated its own semiconductor agreement with Japan, in a sort of metastasis of managed-trade activism.

closed with surprisingly supportive sentiment for it. Some, perhaps, springs from declining respect for U.S. private-sector management. The perception remains unproven, and certainly at variance with the strong position of U.S. multinational firms in worldwide exports.[43] Nor does it seem convicing that public-sector management has risen in U.S. esteem (consider NASA, for example). The U.S. seems particularly ill-equipped to embark on additional managed trade experiments. Yet a strong coalition has formed for 1991 revision and renewal of the Semiconductor Agreement, and the prospects for ending steel VRAs in 1992 have been dimmed by world recession and meager outcomes of the Uruguay Round.

3. <u>The Turn Toward Congressional Activism.</u> The turn toward Congressional activism in U.S. trade policy dates to the 1970s, and even before. But the turn was much sharper during the first Reagan Administration than at any previous time. Having set a new course, Congress turned no further after the Omnibus Trade and Competitiveness Act of 1988. The decade ended with Congress "back on the Board of Directors" instead of trying to manage trade policy, but committed to a much more active directorship than at any time in the postwar era.[44] Among other effects, Congressional activism has added even more complexity to the traditional multi-voice, multi-agency, multi-constituency U.S.

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[43]See Kravis and Lipsey (1985, 1987).

[44]As Destler (1986, 1990) documents, Congress' desire is generally to have influence on and input into trade policy without having direct responsibility for policy outcomes.

approach to trade policy. Such complexity can indeed breed disarray, but can also make U.S. government strategy options richer, increasing the credibility of threats toward recalcitrant trading partners, and allowing recourse to good cop/bad cop tactics.

Congressional restiveness was aggravated by the deteriorating economic environment and laisser faire Executive ideology of the early 1980s. Not only were constituents battered by a recession of record post-war severity, but traded-goods sectors and their host region in the industrial heartland were devastated by uncompetitive exchange rates and the $125 billion plunge in the trade balance, as seen in Figures 1 and 2. The export-dependent pro-trade coalition shrank, the import-battered protectionist coalition mushroomed. Administration attacks on the Export-Import bank and refusal to renew footwear relief seemed wholly wrong-headed on Capitol Hill. Administration crowing about the strong dollar ("America is back") and impenetrability to the sectoral fall-out from its macroeconomic policy weapons only rubbed salt into the perceived wounds of Congress.

Congress' first activist reaction was the Trade and Tariff Act of 1984. The original version included many protectionist provisions, removed only after masterful persuasion by USTR William Brock, an ex-Senator.[45] Important provisions of the bill that remained were negotiation authority for bilateral free trade areas, mandated reporting by USTR on overseas trade barriers, and

[45]See Niskanen (1988, pp. 147-148).

authorization for USTR to become activist itself, not just reactive. Specifically, USTR was given the ability to "self-initiate" Section 301 negotiations to end unjustifiable, unreasonable, and discriminatory barriers to U.S. export market access.

Congress exploded in trade-policy activity in early 1985 when the dollar soared to its February peak, when the self-initiating 301 still remained dormant, and when President Reagan nonchalantly agreed to end the auto VRA with Japan and transferred Brock to the Labor Department, leaving USTR leaderless for three months.[46] Senate Republicans, frightened and betrayed by shortcomings of their own leadership, and (according to one source) chary of competitive initiative from the House of Representatives, began the process of drafting the legislation that became the 1988 Trade Bill. House and Senate Democrats actively promoted an import surcharge (an idea originating with Republican Senator John Danforth).

The revolution brought results -- the Administration finally heard. Clayton Yeutter, the new USTR, promised and began delivering more aggressive words and actions. USTR "self-initiated" four 301 cases in August, and subsequently many more. A Trade Policy Task Force was formed to "seek and destroy"

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[46]See Destler (1986, pp. 105-107) and Destler and Henning (1988, pp. 38-40). Brock's transfer was a surprise even to him, according to most sources. It also sent an unsavroy signal to the rest of the world, since at that point Brock was the senior trade minister of the larger countries.

egregious foreign trade barriers. The Plaza Agreement provided coordinated government ratification for a weaker, more competitive dollar.

But the Administration had lost the initiative on trade legislation to the Congress. The Omnibus Trade and Competitiveness Act of 1988 was three years in the making, and the first congressionally initiated broad trade legislation since the Smoot-Hawley bill of 1930.

What emerged at the end was an act that more than anything else embodies Congressional commitment: to vigilant monitoring of trade policy; to Executive Branch activism in pursuing unfair practices and enhancing market access abroad;[47] and to retaliation if necessary to prompt reluctant trading partners to negotiate in good faith (essentially Congress' "right to strike" if bargaining fails).

What also emerged was authorization for ambitious Uruguay-Round negotiations and a stifling of the cascade of explicitly protectionist legislation enumerated in Table 6. Almost all explicit protection was excised from the bill during protracted drafting by both houses, with input from a far-more-pragmatic second Reagan Administration, and during the mammoth meetings of

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[47]It was in this spirit that Congress strengthened the USTR's position in trade policy, insisting that she be the President's chief spokeswoman and advisor on trade, chair all trade-policy advisory committees to the President, and have the right to attend all meetings where international trade is prominently discussed. See USITC (1989, p. 3).

the 199 member conference committee.[48]

Admittedly, the final act contained a contingent arsenal. But almost all of the most infamous weapons aimed at trade liberalization. The best-known of these, the "Super-301", "Special 301", and "telecom 301" provisions mandate USTR designation of trading partners for liberalizing negotiation, with deadlines. Under Super-301, retaliation is mandated only for unjustifiable violations of previous trade agreements, not for "unreasonable" or "discriminatory" practices. And mandated retaliation can be easily short-circuited by acceptance of GATT dispute settlement or when it would damage U.S. national security. Similar safety valves exist to avoid mandatory retaliation in other provisions as well.

After two years of experience, no retaliation seems likely to occur. Even India's refusal to negotiate after its May 1989 and April 1990 namings as a priority unfair trader under Super 301 seems likely to be ironed out under GATT auspices, as part of Uruguay-Round bargaining, rather than prompting retaliation.[49]

But the arsenal is not toothless, of course. Significant Korean liberalization made it possible to avoid being named under

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[48]Whether a leaner, tighter, non-Omnibus bill would have been possible is discussed in the next section.

[49]In fact, if the Uruguay Round succeeds, then unilateral U.S. 301 cases would presumably become rarer. Services, investment, and intellectual property would all be vested with GATT rights, and improved GATT dispute settlement procedures might substitute for Section 301 initiatives. This is presumably the U.S. carrot or olive branch behind what the rest of the world sees as a club.

Super 301. Brazilian liberalization saved it from being re-named in 1990 after its 1989 designation. And Japan, though refusing to negotiate broad practices under Super 301 designation, did consent to negotiate narrowly on wood products, supercomputers, and satellites.

Both Japanese and U.S. governments then agreed to assign the broad grievances to the face-saving Structural Impediments Initiative, which was explicitly de-coupled from Section 301 proceedings. There U.S. grievance was matched with Japanese grievance, and attempts to exchange mutual remedial commitments were the outcome. This innovative device has the feel of "principal supplier" practice under conventional tariff multilaterals, but in that light it will be important for world trade-policy stability to assure that commitments are MFN-equivalent, not preferential, as discussed below.[50]

An important liability of SII, however, is lack of Congressional linkage. The SII negotiations were not explicitly authorized by Congress. Nor therefore will any U.S. implementing legislation to fulfill commitments to Japan be privileged with "fast-track" (yay-or-nay-without-amendment) treatment. Congressional activism may come into serious conflict in the 1990s with SII commitments.

Managed-trade activists, meanwhile, view the arsenal hopefully for a different reason. If it fails to foment

[50]SII meetings will continue for two years to monitor progress and discuss matters relevant to problem areas already identified.

liberalization, the ensuing retaliation may be an ideal vehicle by which managed-trade activism can attain de facto legitimacy in U.S. policy.

Less prominently noted in the activist arsenal that Congress created are some additional powerful but dangerous weapons: potential scrutiny of foreign direct investment in the United States for threat to national security; potential denial of MFN extension of Uruguay-Round agreements to industrial countries lacking full reciprocity; potential U.S. government procurement embargos against countries that violate U.S. rights or discriminate against U.S. suppliers in their own procurement policy; and potential for a unilateral import surcharge to fund adjustment assistance programs if other countries do not agree to negotiate a uniform counterpart.[51]

Trading partners have naturally accused the U.S. government of "bullying" and "unilateralism". The emphasis on foreign offenses certainly does seem one-sided, but SII-style mutual-grievance negotiations may redress that. Otherwise, it is not yet clear whether bullying and unilateralism is the right metaphor. Congressional and Administration intent seems so far merely to be activism, the abandonment of historical passivism, "no more Mr. Nice Guy," "no more unhealthy enabling of foreign addiction to trade-policy interventionism." The trade -policy environment of the 1990s will no doubt shape the growth of the malleable

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[51]See USITC (1989, pp.1-9) for a detailed discussion of these and other provisions.

features of the 1988 bill into mature and reasonable adults or monsters. A few disciplining features along these lines are discussed below.

III. ROADS NOT TAKEN

U.S. trade-policy choices in the 1980s were clearly constrained by the unfavorable trade-policy environments -- the growing perception of unfair foreign practices, the macroeconomic decline of the early 1980s and even more enduring slump in the trade balance, and the ideological ferment of the first Reagan Administration.

Yet alternatives were still possible to the choices made, and part III of the paper assesses some, starting with alternative strategies, then moving to alternative tactics. Among tactics, alternatives to the three important "tilts" in U.S. trade policy will be examined, then several tilts not taken (or dogs that didn't bark).

A. Alternative Strategies?

With respect to trade-policy strategy, it is worth repeating that this paper takes the macroeconomic environment and its underlying policy thrust as given. Had early 80s macroeconomic policy been different, alternative trade-policy strategies would have been more numerous than they were. Another way of saying this is that one of the most attractive alternative strategies for U.S. trade policy would have been a more sensitive appreciation in macroeconomic policy for the unhealthy fallout from the soaring dollar.[52] Trade policy's flanks were left dangerously exposed by the retreat of seasoned macroeconomic forces. Trade policy then had to retreat itself, with casualties along the way.

Given the macroeconomic environment, the first trade-policy strategy to consider might be called "multilateral diversion." Multilateral diversion is a longstanding U.S. practice, involving more-or-less continuous rounds of multilateral trade negotiations that divert and delay the ever-present pressures for protection and promotion. Congress and the President can channel such pressures into the multilateral agenda and urge patience on petitioners "until the results of the round are in." The premise behind this strategy is captured by the familiar bicycle metaphor. If the bicycle of trade liberalization isn't moving forward continuously, it will fall victim to the gravity of protection.

In essence, multilateral diversion <u>was</u> the strategy of USTR Brock in 1981. But, for reasons described above, it failed, and was replaced by eclectic tactics: "multilateral if possible, minilateral if necessary." To have continued to press along traditional lines after the GATT Ministerial Meetings of 1982 would have been politically suicidal, within the Administration, in the eyes of Congress, and in public opinion.

The second alternative trade-policy is the inverse of the

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[52]See Destler and Henning (1989) for an extensive account of why early and frequent expressions of this view carried so little weight.

first, and might be called "consistency and insulation." Consistency implies common approaches to trade-policy petitions and cases, presumably by following U.S. administrative remedies closely. It could have been couched in the rhetoric of "law and order in trade policy." Insulation implies ignoring GATT multilaterals and dispute settlement until more auspicious environments emerge than those of the early 1980s.[53] It is hard, however, to see that strategy dominating the tactical pragmatism actually practiced. Consistency might have implied the Administration accepting more petitions (for example, the escape-clause petitions of footwear in 1981 and copper in 1985) and pressing others to their logical conclusion (for example, the massive number of steel petitions against dumping and subsidies in 1982). Although Congress might have been placated by such a strategy, trading partners in the recession of 1981-83 would almost surely have seen such rigidity as Smoot-Hawley revisited, and retaliated (for example, the EC in steel).

In the later 1980s, "sectoral minilateralism" is a third strategy that might have given the U.S. Executive an initiative independent of Congress. Especially in the cases of steel and semiconductor chips, the United States government might have been instrumental in activating liberalizing negotiations among

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[53]At least one source thought that the U.S. initiative for a 1982 GATT Ministerial was unwise, but it is not clear whether he would have thought so without hindsight, e.g., early in 1981 when the initiative was planned.

principal suppliers.[54] Given the issues involved in steel, the signatories of the Tokyo-Round Subsidies Code might have been the logical charter group, and for parallel reasons, signatories of the Anti-Dumping Code for chips. Such negotiations would of course have been GATT-related, but also distinct in the same way the codes are distinct from the GATT. Naturally, such sectoral minilaterals could have been brought under the umbrella of a subsequent Uruguay Round, but prior to that might have served to hold back the cartelizing forces of comprehensive steel VRAs and special semiconductor deals among big-country suppliers. The danger in this alternative is that liberalizing negotiations would become perverted by narrowly sectoral interests, and the results would be "MFAs for steel and chips"[55] instead of orderly progress toward market outcomes.

Finally, as a fourth alternative to the late-80s Uruguay-Round thrust, the maxi-minilateral strategy of negotiating an OECD Free Trade and Investment Area is worth consideration.[56] Proponents favored expansion of the negotiations to include a few prominent NICs and coverage that would have been just as comprehensive as the Uruguay Round -- services, investment, dispute settlement. Proponents argued that the risk of failure

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[54]The Bush Administration illustrated the application of this strategy in its approach to shipbuilding in 1989, convincing U.S. shipbuilders to withdraw a Section 301 complaint, and pressing simultaneously for OECD negotiations to reduce subsidies. These negotiations are still going on.

[55]The phrase is Robert E. Baldwin's.

[56]See Hufbauer (1989, Ch. 7).

would be less, as would temptations for accelerated U.S. "unilateralism."

This alternative strategy looks uncompelling at this time. Proponents did not anticipate the destructive importance of agriculture and services issues in the Uruguay Round negotiations -- issues that would have splintered the OECD initiative as well. At least the Uruguay Round has succeeded (however tempestuously) at provoking the active initiative of the developing countries that would have been isolated under the OECD-centered proposal. So far there has been no acceleration of U.S. unilateralism, despite the doubtful prospects for the Round. The OECD approach would probably have fared no better.

B. Alternative Tactics?

Beyond alternative trade-policy strategies, were there tactical roads not taken? For sound reason or not?

1. Alternatives to Minilateralism? U.S. minilateral tactics in the 1980s have elicited considerable handwringing.[57] Regional liberalization has been alleged to undermine the GATT, and "grievance minilaterals" have been dismissed as unilateral bullying. Handwringing notwithstanding, the Uruguay Round was

[57]See, for example, the contributions by Isaiah Frank, Anne O. Krueger, Gardner Patterson, and Martin Wolf to Schott (1989) and Bhagwati (1988, 1989).

launched, and the United States has conducted its grievance initiatives judiciously and with retaliation only in the Semiconductor Agreement. Furthermore, many of its Section 301 initiatives have had the flavor of the long-respected tradition of a principal supplier bargaining bilaterally with a principal demander, only often on issues not explicitly covered by the GATT.

These observations suggest a supplementation of the U.S. approach that might be considered an alternative tactic. It would be to add MFN-equivalent application to all U.S. grievance minilaterals, so that market-opening concessions were to be clearly made available to all potential suppliers, not just to the U.S. principals. Although this has been the U.S. practice in most cases, there have been exceptions, such as the late-1980s negotiation of access for U.S. firms alone to the Korean insurance market.[58]

Otherwise grievance minilaterals between principal suppliers and demanders have the familiar advantages of involving the parties with strongest commitment and, presumably, best information. Bilateral approaches may in fact be often the most feasible approaches for complex new issues in services and foreign investment measures, involving sensitive cultural and institutional issues. That is, for example, why most tax treaties

[58]One commentator observed how tempting it is for the target country to offer a preferential concession only, that would be adequately valuable to the complaining country, but not as costly for the target as an MFN-equivalent concession.

are bilateral, not multilateral.

Given the environment of the 1980s, it hard to imagine other alternatives to minilateralism that would have maintained liberalizing impetus. That is not true of alternatives to the sharper of U.S. turns toward managed trade.

2. Alternatives to Managed Trade? One obvious alternative to the milder U.S. tilts toward managed trade would have been sanctioned administrative remedies. VRAs with Japan on autos, for example, could have been avoided by introduction of legislation that altered the way the International Trade Commission defined "substantial cause" of serious injury. The auto industry could then presumably have re-submitted an escape-clause petition. In the event, the alternative to the auto VRA was a strict quota bill introduced by Senators John Danforth (R) and Lloyd Bentsen (D) that would presumably have attracted significant Congressional support. Unlike the VRA, it might still be rigidly protecting U.S. automakers today.

Similarly for machine tools, temporary import relief could have been provided in principle on the statutory grounds that imports were threatening national security. Yet relief to a manufacturing industry on these grounds would have been unprecedented (oil had received such relief in the 1970s), and the persuasiveness of the case had already been undermined by its rejection three years previously. Since Germany and Switzerland would presumably have been unable to avoid barriers to their exports in this case, a GATT appeal and/or retaliation might well have been the result.

Yet in the cases of both autos and machine tools, it is arguable that the mild, non-comprehensive VRAs supplied roughly the amount of temporary relief (until circumvented),[59] with compensation, that escape-clause or national-security relief would have supplied. Thus alternative tactics may boil down to essentially the same thing--except, of course that the one chosen is at or beyond the fringe of accepted rules.

By contrast, the more aggressive managed-trade experiments in steel and semiconductors had arguably stronger anti-competitive effects. Here most of the sanctioned administrative remedies were probably not feasible alternatives. Although steel could have been awarded escape-clause relief, any levying of significant anti-dumping and countervailing duties would likely have elicited European appeal to the GATT and/or retaliation. And semiconductor petitioners were divided between those who wanted protection in the U.S. market and those who wanted access to the Japanese market, with each potentially injured by the other's relief.[60]

Here a sensible alternative might have been sectoral minilateralism, as described above, and as George Bush

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[59]U.S. machine tool imports were 10 percent higher in 1988 than in 1986 as increased shipments from non-controlled sources more than compensated for reduced shipments from Japan and Taiwan. See GATT (1990, pp. 219-220, 254).

[60]Micron might have been disadvantaged by any competitive scale/cost advantage that Texas Instruments acquired by increasing its chip sales in Japan.

essentially promised in his 1989 renewal of the steel VRAs for only two and a half years. In semiconductor chips, this would merely have involved inviting the EC, and perhaps Korea, to join the negotiations that the United States and Japan were carrying out anyway.

3. Alternatives to Congressional Activism? Could there have been a kinder, gentler Omnibus Trade and Competitiveness Act of 1988? ... a leaner, but not-so-mean non-omnibus act that would still have authorized Uruguay-Round negotiations?

These questions are hard to answer because the effects of the 1988 Act on U.S. trade policy are still not clear. In its short-run impact, the Act has both enabled the Uruguay-Round to proceed and provoked significant liberalization and promises of more from Brazil, Korea, Japan, and other countries. But the efficacy of the Act's provisions in the medium and long run are not so clear. The Uruguay Round may deliver far less than it promised, if anything at all. And after easy conquests of obvious inequities, the search for priority unfair practices and traders may provoke only acrimony and retaliation.

It seems likely that if the Reagan Administration had become activist a year or so earlier, it could have pre-empted Congressional activism[61] in trade legislation. This would almost surely have produced a bill with more discretion and fewer

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[61]The Administration did not submit its own draft of a trade bill until 1987, and it was then virtually ignored by a Congress intent on drafting its own, according to one source, who said, "They never opened the envelope."

mandated reports and deadlines. But it would still have been tough, and possibly not as effective in encouraging concessions from trading partners. Congress is a better "bad cop" than any part of the Executive Branch.

Also if the Reagan Administration had initiated trade legislation sooner, it might have resulted in a slightly leaner bill, because it would have choked off the "y'all come" flavor of Congressional initiative.[62] But in the late 1980s there is almost no way to avoid the involvement of myriads of committees and sub-committees, since the ambitious Uruguay Round agenda touches on the regulatory domain of virtually all.

4. Tilts Not Taken? It is easy to forget several tactical tilts that were briefly considered, then resisted. Among these the most important were: domestic content and import quota bills to protect the U.S. auto industry in the early 1980s; import quota bills to protect textiles, apparel, and footwear in the late 1980s; the import surcharge bill of 1985; and the proposal from the early 1980s to merge USTR and the Commerce Department into a Department of International Trade and Industry (DITI).

Each of these had the potential to become a significant and self-perpetuating shift in U.S. trade policy. The first two would have extended the scope of "special protection" beyond fibers and steel to autos and footwear, each a large U.S.

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[62]One source reports being called by the Chairman of a Congressional Committee who said, "Every time there's a trade bill we pass; this time we want to play." The result was ultimately incorporated into the bill.

industry in output and employment. The first was short-circuited by the auto VRAs, and the second was suppressed by presidential vetos. A tilt toward explicit protectionism was consequently avoided, a tilt that would arguably have been as significant as minilateralism, managed trade, and Congressional activism.

The thrust for an import surcharge was blunted by the Reagan Administration's 1985 concessions, then essentially transformed to emerge as the Super 301 provision of the 1988 trade bill. Had the surcharge passed in its original form, it would have levied extra duties up to 25 percent on imports from partners with large trade surpluses. This might have made the Uruguay Round inconceivable, and most likely would have delayed it. It would clearly have been an explicit violation of GATT tariff bindings and the Most-Favored-Nation principle. Thus it could have been interpreted as virtual abandonment of the GATT by the United States.[63]

Finally, had the United States weakened the multi-agency tradition in trade policy, and consolidated its administration under a DITI, this would almost certainly have accentuated the tilt toward managed trade, and given that tilt more momentum than in fact it had in the late 1980s. Almost surely the tilt would have been so great that it would be better described as a turn toward industrial policy, a resurgence of Hamiltonian perspectives from the U.S. past!

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[63]Unlike the U.S. import surcharge of 1971, it could not have been defended as a desperate, one-time signal that global negotiations were in order.

With due allowance then for these tilts not taken, one might assess U.S. trade policy in the 1980s by saying that the traditional boat rocked, but did not capsize. We turn in the last part of the paper to a slightly more detailed assessment.

IV. EFFECTS AND ASSESSMENT

U.S. trade policy in the 1980s seems on balance to have become mildly more restrictive. It has almost surely contributed to the stagnation in the ratio of U.S. trade to output, relative to its 1970s surge, and relative to the ongoing growth in the ratio for the world as a whole.[64] The future effects of particular turns and tilts of U.S. trade policy, however, vary.

Minilateral initiatives seem likely to continue and have the potential for effective liberalization. Regional liberalization is, on the basis of empirical evaluation, at least somewhat liberalizing. Trade war (as opposed to competition) among rival blocs seems possible in the name of economic security, yet unlikely. "Forced" bilateral and minilateral negotiations have the potential to be no more severe or undesirable than "forced" confrontation in any setting.

Managed-trade initiatives are more mixed. Mild, limited voluntary restraint arrangements have always come and gone on the international trading scene.[65] Their metastasis into MFA-like complexity is the exception, not the rule. But steel VRAs are not reassuring, and may be the next exception. In general there seems to be undue alarm over mild VRAs and undue nonchalance over the anti-competitive effects of sweeping managed-trade initiatives.

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[64]GATT (1989, p.8)

[65]See Patterson (1966) for an engaging history of how frequently these devices were used even in the "good old days" of GATT pre-eminence.

Trade-policy activism on the part of the U.S. Congress and the Executive Branch will have uncertain outcomes, it seems. Like an arsenal of weapons it can either keep the peace or terrorize. Much depends on who is in command.

On balance then, of the three important turns in U.S. trade policy in the 1980s, one seems to have liberalizing potential and the other two draw mixed assessments. In an economically healthy future, this nets to a mildly positive assessment, and might ultimately be judged even more enthusiastically. If the 1990s environment, however, turns out to be unhealthy, then the dark potential of managed trade and Congressional activism may overwhelm any positive aspects of minilateralism.

One alarming legacy of U.S. and European trade policy in the 1970s and the 1980s is the pre-occupation with unfair practices and remedies. This has all the debilitating aspects of older "divorce-for-abuse-only" cases, emphasizing the adversarial relationship and casting one party as devil and the other as angel. More promising, perhaps, is a cooler approach that de-emphasizes conflict and re-emphasizes the need for adjustment and potential for mutual gains from trade through negotiation over the policy skeletons that every government has in its closet. More promising perhaps is a road that traverses communication, then mediation, then as a last resort, "no fault divorce" when necessary. The trick is how to shape international institutions and domestic policies to these ends in an environment increasingly given to seeing selling and buying as a species of war, and "economic security" as an end above economic prosperity.

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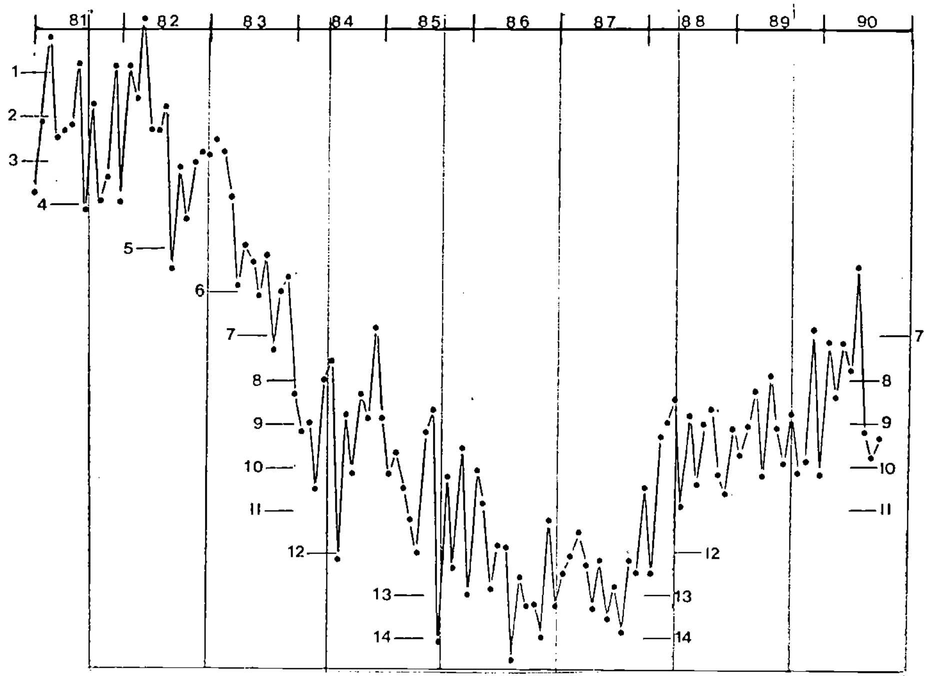
FIGURE 1

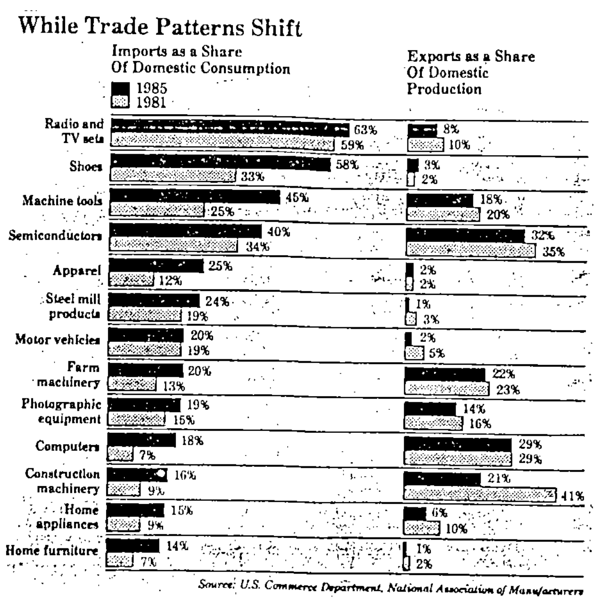
THE MONTHLY U.S. TRADE BALANCE[1]
1981 - 1990



[1] Current dollar exports, f.a.s., less general imports, customs value, seasonally adjusted (except 1986).
Sources: U.S. Department of Commerce (1990, Exhibit 2) and President of the United States (1989 and earlier issues, Tables B-101 to B-105).

FIGURE 2

HALF DECADE
STRUCTURE OF U.S. TRADE BALANCES
1981 - 1985

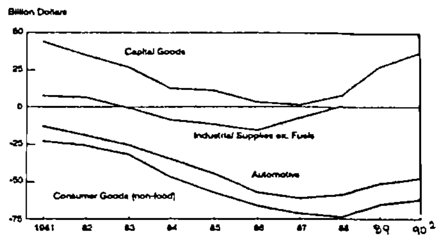


Source: Wall Street Journal, October 27, 1986, pp. 1, 12; original sources: U.S. Department of Commerce and National Association of Manufacturers.

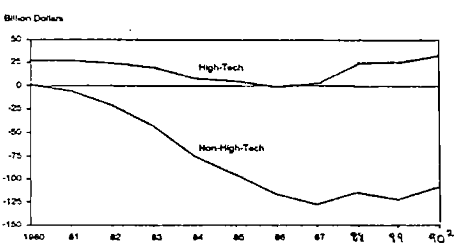
FIGURE 3

FULL DECADE
STRUCTURE OF U.S. TRADE BALANCES
1980 - 1990

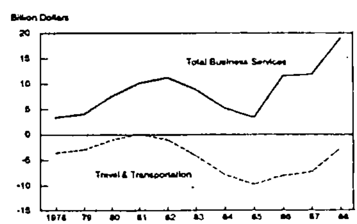
U.S. Manufactures Trade Balances, by End Use, 1981-88



U.S. High-Tech & Non-High Tech Manufactures Trade Balances, 1980-88



U.S. Total Business Services and Travel & Transportation Balances, 1978-88



[1] Current dollar exports less imports.
[2] 1990 data = (12/5) x (cumulative January through May, 1990).

Sources: U.S. Department of Commerce (1989, Figures 3.3, 3.7, and 5.3; 1990, Exhibits 3, 5, and 11).

TABLE 1

ROLE OF FOREIGN DIRECT INVESTMENT IN THE U.S. ECONOMY (PERCENTAGES) 1977 - 1988

Measure	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
FDI stock ratio[a]	2.1	2.4	2.6	3.5	4.0	3.9	4.2	4.8	5.3	6.3	7.6	8.9
Foreign share of US mfg.[b]	5.2	5.7	6.6	7.2	9.6	9.8	10.1	10.2	10.8	11.4	12.2	n.a.
Foreign share of US employment[c]	1.7	1.9	2.2	2.6	3.0	3.1	3.2	3.3	3.3	3.4	3.5	n.a.
Foreign share of mfg employment[d]	3.5	3.9	4.8	5.5	6.5	6.6	7.2	7.1	7.6	7.3	7.9	n.a.
Foreign share of GNP[e]	1.7	1.9	2.2	2.6	3.3	3.3	3.3	3.5	3.5	3.4	n.a.	n.a.
Foreign share of mfg. value added[f]	3.7	4.1	4.8	5.5	7.6	7.8	8.1	8.4	8.3	8.3	n.a.	n.a.

mfg. = manufacturing; n.a. = base data not available.

a. FDI stock ratio equals FDI stock as percentage of total net worth of nonfinancial corporations. *Sources:* FDI stock—"Foreign Direct Investment in the United States: Detail for Position and Balance of Payments Flows, 1987," *Survey of Current Business* 68 (August 1988), 69; net worth of nonfinancial corporations—Federal Reserve Board, "Balance Sheets for the U.S. Economy 1949–88," April 1989. The figure for 1988 is based on preliminary data.

b. Assets of foreign mfg. affiliates as percentage of assets of US mfg. corporations (excluding petroleum refining). *Sources:* assets of foreign mfg. affiliates—Bureau of Economic Analysis, "Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies" (FDIUS:OUSAFC), various issues, table B-1; assets of US mfg. corporations—Bureau of the Census and Federal Trade Commission, "Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations," various issues and tables.

c. Employment of foreign affiliates as percentage of total US employment. *Sources:* employment of foreign affiliates—FDIUS:OUSAFC, various issues, table F-1; US employment: "National Income and Product Accounts," *Survey of Current Business*, various issues and supplementary volume.

d. Employment of foreign mfg. affiliates as percentage of total US employment. *Sources:* employment of foreign affiliates—FDIUS:OUSAFC, various issues, table F-1; US manufacturing employment: "National Income and Product Accounts," *Survey of Current Business*, various issues and supplementary volume.

e. Output of foreign affiliates as percentage of total US GNP. *Sources:* output of foreign affiliates—Bureau of Economic Analysis, "Foreign Direct Investment in the United States: Gross Product of Nonbank U.S. Affiliates of Foreign Companies, 1977–1986" (FDIUS: GPN), 23, table 1; US GNP—"National Income and Product Accounts," *Survey of Current Business*, various issues and supplementary volume.

f. Mfg. value added of foreign affiliates as percentage of total US mfg. value added. *Sources:* mfg. value added of foreign affiliates—FDIUS:GPN, 23, table 1; US mfg. value added—"National Income and Product Accounts," *Survey of Current Business*, various issues and supplementary volume.

Source: Graham and Krugman (1989, Table 1.2, p.13)

TABLE 2
U.S. USE OF INSTRUMENTS OF "NORMAL" TRADE-POLICY RECOURSE

Number of Cases Filed...	Period Averages			Early 80's Accentuation				
	Annual Avg. 75-80	Annual Avg. 81-85	Annual Avg. 86-88	1981	1982	1983	1984	1985
Fair Trade Recourse								
Protection against injury from fair trade (Section 201 cases)	7.5	2.4	2.7	2	1	2	5	2
Unfair Trade Recourse								
Protection against unfair dumping (Section 701 cases)	28.7	44.4	43.0	13	53	41	37	78
Protection against unfair subsidies (Section 701 cases)	19.2	37.0	10.7	17	100	20	12	36
Protection against unfair violations of intellectual property rights (Section 337 cases)	12.8	27.6	18.0	19	20	22	37	40
Action against other unfair trade practices (Section 301 cases)	2.7	4.4	18.0	2	8	1	7	4
Total Unfair	63.4	113.4	76.0	51	181	84	93	158

Sources: Deardorff (1989, Table 6, relying on a trade action data base maintained by John H. Jackson; Grinols (1989, Table 2); USITC (1988, 1989).

TABLE 3
U.S. AND FOREIGN USE OF "NORMAL" TRADE POLICY RECOURSE

Number of Actions...	Period Averages			Early 80's Accentuation				
	Annual Avg. 79-80	Annual Avg. 81-85	Annual Avg. 86-88	1981	1982	1983	1984	1985
UNITED STATES								
Fair Trade Recourse[1]	3.0	4.6	2.7	6	1	7	6	3
Unfair Trade Recourse[2]	46.5	113.8	60.0	47	215	76	127	104
EUROPEAN COMMUNITY								
Fair Trade Recourse[3]	0.0	4.8	6.0	0	3	5	2	9
Unfair Trade Recourse[4]	40.5	46.2	36.3	48	59	46	43	35
CANADA[5]								
Fair Trade Recourse	0.0	0.4	0.0	1	1	0	0	0
Unfair Trade Recourse	28.0	41.2	78.7	23	73	39	33	38
AUSTRALIA[5]								
Fair Trade Recourse	0.0	0.2	0.0	0	0	1	0	0
Unfair Trade Recourse	58.0	68.8	32.7	49	80	87	62	66

[1] Section 201 cases plus GATT Article XIX safeguard cases.
[2] Dumping, subsidies, and privately initiated 301 cases only.
[3] EC Regulation 288 cases plus GATT Article XIX safeguard cases.
[4] EC "new trade instrument" cases.
[5] Dumping, subsidies, and Australia's and Canada's 79-80 averages represent 1980 figures only.

Source: Messerlin (1990), Table 1.

TABLE 4

U.S. "MINILATERALISM" IN THE 1980s

Regional/Preferential Trade Liberalization

Caribbean Basin Initiative (1984)

U.S.- Israel Free Trade Area (1985)

Canada - U.S. Free Trade Agreement (1988)

"Grievance" Bilaterals/Minilaterals

Section 301 Activism After 1985

Market-Oriented Sector Selective (MOSS) Negotiations with Japan (1985-86)

Structural Impediments Initiative with Japan (1989-...)

TABLE 5

U.S. MANAGED-TRADE INITIATIVES
IN THE 1980s

Mild Initiatives

Voluntary Restraint Arrangements with Japan on automobiles (1981-...)

Voluntary Restraint Arrangements with Japan and Taiwan on machine tools (1986).

Modest Initiatives

Voluntary Restraint Arrangements with principal suppliers of steel (1985-1986)

Semiconductor Agreement with Japan (1986).

TABLE 6

GROWING CONGRESSIONAL TRADE-POLICY ACTIVISM
PRIOR TO THE 1988 OMNIBUS BILL

Number of Trade Bills Introduced in Various U.S. Congresses (percentage change over previous Congress)

Congress (years)	Destler (1986) Count[a]	Ahearn (1986) Count[b]
96th (1979–80)	62 —	1089 —
97th (1981–82)	56 (−10%)	1150 (−6%)
98th (1983–84)	57 (+2%)	1401 (+22%)
99th (1985–86)	93[c] (+60%)	1758[d] (+25%)

[a]Counts bills whose primary purpose was to restrict trade or benefit U.S. producers.

[b]Counts bills employing twenty trade-related terms, some to expand trade, some to protect, with various shades based on personal evaluation.

[c]Growth rate between January-September of 1985 and January-September of 1983 applied to number of bills introduced to 98th Congress: (49/30) × 57.

[d]1985 figure times 2.

Source: Richardson (1988, Table 3.6), based on Destler 91986, pp.75-76) and Ahearn (1986).