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January 31, 1991

NOTE FOR DAVID DEMEREST
Office of Communications
The White House

The speech was super! Ignore the bad news bears at the networks and keep going. The content was strong and the tone was the right one.

An idea for an insertion into "on the road" versions of the speech -- at the point where trade and competitiveness comes up -- occurred to me as I watched. There's more to this than reducing trade barriers, as you well know. Hence, there's a natural opportunity in speeches around the country to add a "here's what you can do" element -- aiming it squarely at the thousands of manufacturers and intermediaries who are "infrequent exporters", i.e., they are in the game, but only export around a quarter of a million a year each. They, perhaps more than big business, have the potential to significantly increase exports. So for what it's worth, here are some words.

"We are going to do everything in our power to reduce foreign trade barriers and eliminate subsidies that limit America's ability to compete effectively in world markets. But what government does for trade is the least of it -- our effectiveness in world markets depends primarily on the foreign sales of American businesses. America's success in exporting depends on firms of all sizes -- selling to all sorts of markets -- and taking advantage of the opportunities for trade we already have.

- o Our biggest single foreign market isn't Europe or Japan -- it's Canada -- where we have already negotiated a free trade agreement that's full of opportunity.
 - Every American business that knows it has a good product should be trying to make a sale in Canada -- and then using what they've learned about exporting to move into other markets.
- o In to markets to the South, where special arrangements with the Caribbean already make that area attractive, and where we are now working toward a free trade agreement with Mexico.
- o To Europe -- where it has been proven, time and again, that consumers want to buy American products -- and where sales by U.S. firms earned us a major positive trade balance last year.
 - Those exports sales are more than just numbers -- exports mean jobs. Every billion dollars in exports means 20,000 jobs for American workers.
- o And finally to Asia -- another land of opportunity for America's exporters. U.S.

firms are already succeeding in Asia -- selling airplanes and telecommunications equipment to Japan, wheat and fertilizers to China, and electrical machinery and computers to Singapore. There is room to multiply our exports to Asia many time over.


Lots of American businesses are already active in the export game. Our best estimates show that -- between manufacturers, wholesalers, and trading companies -- roughly a hundred thousand U.S. firms are involved in exporting American products. Yet only a few have more than a toe in the water.

There are tens of thousands of firms -- roughly 75% of our exporters -- for whom exporting is a sideline -- a secondary business. Well let me tell you -- if each of these firms would take that business seriously -- and work themselves up to the point of making a shipment a week, instead of a shipment a month -- the United States would have a trade surplus -- rather than a \$65 billion trade deficit.

So I'll do all I can to open more markets for American business. I'll toss that football -- but you have to run with it. American business has to put our trade opportunities to work."

Commerce (probably USFCS) and Census can verify/update figures cited above -- and they also have the kind of stories -- perhaps on a state-by-state basis -- that make good one-liners about how Company X has penetrated Market Y with manufactured goods, agricultural commodities and a range of services from banking to construction. SBA's another place to check for export success stories.

Enough. Happy New Year! Say "hi" to Sarah.


Molly Hageboeck

*copy written
research*

DATE: 4/6/92

TO: SEE BELOW

FROM: CLAYTON YEUTER
Counsellor to the President for
Domestic Policy

Some good background material
from David Walters of USTR.

DISTRIBUTION:
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Question:

What basic industries are stronger today than they were 10 years ago?

Answer:

Summary:

- o Over the 10 most recent years for which data are available (1979-1989), most U.S. basic industries (manufacturing) have expanded.
- o Overall, the output growth of the U.S. manufacturing sector has slightly outstripped the growth of the overall economy.
- o Within the manufacturing sector, production in some industries has surged -- particularly those in which high-technology products are found -- while production in others has declined.
- o In many regards, the data reflect the type restructuring of the manufacturing sector that one might expect in the case of an advanced industrial economy like that of the United States. Many industries characterized by high-tech products have expanded their share of U.S. manufacturing output while other manufacturing industries have seen their share decline.
- o Despite the strong rate of growth of output, manufacturing employment fell 7.6 percent over the ten-year period, due to rapid improvements in manufacturing productivity.
- o Employment growth outside the manufacturing sector has more than taken up the slack with the increases in non-manufacturing jobs 15 times greater than the loss of jobs in manufacturing.
- o Rapid growth of U.S. exports was a principal contributor to the strong growth of U.S. manufacturing output.

Trends in Manufacturing Output (1979-1989)

Manufacturing output has grown faster in the United States than in the rest of the world: As Chart 1 shows, according to World Bank data,¹ U.S. output of manufactures grew at an average compound rate of 3.8 percent between 1980 and 1989, while world manufacturing production grew at the somewhat slower rate of 3.5 percent. (For the sake of comparison, the World Bank reports that in the earlier period 1965 to 1980, U.S. manufacturing output grew a slower 2.5 percent average annual rate. The World Bank does not report comparable figures for world manufacturing output growth for the 1965-80 period.)

U.S. manufacturing output grew somewhat more rapidly than the average growth for non-manufacturing sectors of the U.S. economy: Between 1979 and 1989², the real (constant dollar) output of U.S. manufacturing increased by 30.4 percent (average rate of 2.7 percent per year.) (See Chart 2.) This rate slightly exceeded the growth rate for non-manufacturing sectors of the U.S. gross national product (GNP) which rose 28.6 percent (average annual rate of 2.5 percent) over this period. As a result, the share of manufacturing in U.S. constant-dollar GNP rose from 22.3 percent in 1979 to 22.6 percent in 1989.

Restructuring within the U.S. Manufacturing Sector

While U.S. manufacturing overall has experienced substantial growth, changes in output for individual industries in the manufacturing sector have varied widely: Machinery has been the fastest growing U.S. manufacturing industry with production more than doubling in 10 years (Chart 3 and Table 1). Exceptionally strong growth was also recorded for petroleum and coal products, up 80.3 percent, transportation equipment other than motor vehicles (air craft inter alia), up 79.2 percent, rubber and plastic products, up 56.3 percent and electric and electronic equipment, up 50.8 percent.

At the other end of the spectrum, manufactures of tobacco declined by slightly more than two-thirds, of leather and products by 31.0 percent, and of primary metals by 30.0 percent.

Although production of motor vehicles and equipment dropped by 8.3 percent, production for the transportation sector as a whole grew at a rate (26.1 percent), almost in line with manufacturing overall. As a result, transportation equipment other than motor vehicles has grown to exceed the size of the motor vehicle transportation sector: other transportation rose from roughly 70 percent of the motor vehicle sector in 1979 to 135 percent in 1989.

Changes in industry shares of total U.S. manufacturing output:
Table 2 shows the share of total manufacturing output accounted for by each manufacturing industry in 1979 and 1989 (as well as their rank order in each year). The largest single change has been the rise in share of machinery from 12 percent of U.S. manufacturing in 1979 to 18.8 percent in 1989. The largest single decline in share was for primary metals, down from 7.4 percent of output in 1979 to 4.0 percent in 1989.

Chart 4 shows the change in share of U.S. manufacturing output between 1979 and 1989 for each of the 21 manufacturing industries. It is striking that U.S. manufacturing sectors gaining share tend to be those where one would expect the production of higher technology products are located: machinery, electric and electronic equipment, non-automotive transport equipment (aircraft in particular) and chemicals and allied products. These four sectors, in fact, increased their collective share of U.S. manufacturing output from 33.6 percent of total in 1979 to 43.7 percent in 1989.

In contrast, in many, but not all, cases, the U.S. manufacturing industries losing share were more traditional in nature and/or those reflecting the U.S. natural resource endowment. For example, leather and products, tobacco manufactures, lumber and wood products, stone, glass and clay products, and primary metals have seen their collective share of U.S. manufacturing decline from 15.7 percent in 1979 to 9.9 percent in 1989.

Trends in Manufacturing and Overall Employment

Between 1979 and 1989, employment in the United States increased by 23.4 million (Charts 5 and 6) or an average annual rate of 2.1 percent. The composition of employment, however, changed. Jobs in manufacturing industries fell 1.6 million to a total of 19.4 million in 1989. Jobs outside of manufacturing increased by 25.0 million to a total of 104.4 million in 1989.

On a composition basis, manufacturing jobs fell from 21.0 percent of U.S. total employment in 1979 to 15.7 percent in 1989. The drop in the manufacturing share of U.S. employment stands in sharp contrast to manufacturing production which grew slightly faster than total GNP between 1979 and 1989, increasing its share of GNP, as stated earlier, from 22.3 percent of GNP to 22.6 percent of GNP.

The explanation for declining share of U.S. employment in manufacturing in face of manufacturing's rising share of U.S. production is found in the strong labor productivity growth in the manufacturing sector. Manufacturing labor productivity rose some three times faster between 1979 and 1989 than the rate of labor productivity growth for the overall U.S. economy.

Successful industrialized countries have, like the United States, generally experienced stronger productivity growth in the manufacturing than in other sectors and declining shares of manufacturing in total employment. This pattern has supported the growth in real U.S. output on a per worker basis (average annual rate of 1.0 percent, 1979 to 1989) as well as a per capita basis (annual average rate of 1.7 percent³).

Trends in Exports

Export expansion has aided the growth of U.S. manufacturing output: Between 1979 and 1989, U.S. real non-agricultural exports (90 percent of which are manufactures) rose at an average annual compound rate of 4.6 percent (Chart 7) compared to a 2.5 percent growth rate in real gross domestic product (GDP)⁴. As a result, non-agricultural exports rose ~~of~~ from 5.1 percent of constant-dollar GNP in 1979 to 6.4 percent in 1989.

Although data for 1990 and 1991 are not currently available for real manufacturing output, they are available for real exports. In the last two years non-agricultural exports have increased by another 17 percent. The ratio of real non-agricultural exports to GDP ratio from 6.4 percent in 1989 to 7.5 percent in 1991. As for this year and beyond, practically all major forecasts of the U.S. economy expect that strong export growth to be a significant contributor to the U.S. manufacturing growth, as well as to overall U.S. GDP growth.

1. Data drawn from the World Bank's World Development Report of 1991

2. The most recently available data in the U.S. National Income and Product Accounts (NIPA) on constant dollar gross U.S. product by manufacturing industry appeared in the January and April 1991 issues of the Survey of Current Business. The data are reported on the basis of constant 1982 dollars through 1989, the most recent year for which these data are available. The Bureau of Economic Analysis (BEA) at the Commerce Department is in the process of revising and rebasing all NIPA tables to constant 1987 dollars. This has been done for many GNP/GDP components. The latest series for gross product by manufacturing industry, however, remains on the constant 1982 dollar base. A BEA spokesperson reports that gross product by manufacturing industry series, based on constant 1987 dollars and extended to calendar year 1990 will be available in September or October of this year.

The selection of the years 1979 and 1989 as the basis of U.S.

domestic comparisons reflects the ten-year period indicated in the Member's question, as well as the absence of data availability beyond 1989. It should be noted, however, that 1979 and 1989, being years at or close to similar points in different business cycles (peaks in economic activity), are particularly appropriate points of comparison. The much stronger growth in manufacturing output reported in the World Bank comparison of 1980 to 1989 reflects in part the cyclical downturn for economic activity from 1979 to 1980.

3. Data on per worker and per capita U.S. output have been drawn are from the Office of Productivity and Technology, Bureau of Labor Statistics, U.S. Department of Labor.

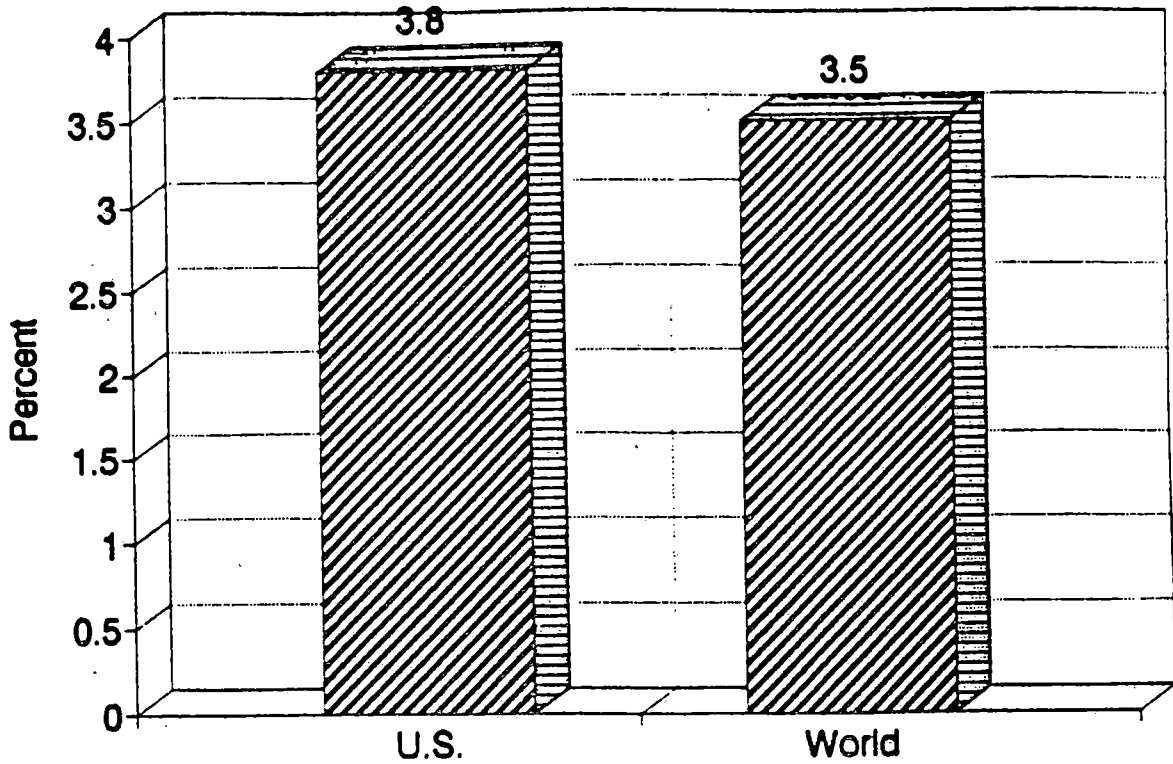
4. Because of significant changes to the NIPA-based export data when moving from a 1982 to a 1987 constant-dollar series, the export and GDP series reported here are on the new constant 1987 dollars basis. When gross product for manufacturing industry in 1987 constant dollars is released in October of this year, it will be possible to do a closer analyses of exports and the growth of manufacturing output than current data allow.

USTR/3/31/91

Annual Average Growth Rate for Manufacturing Output: 1980 to 1989

Source: World Bank (See Text)

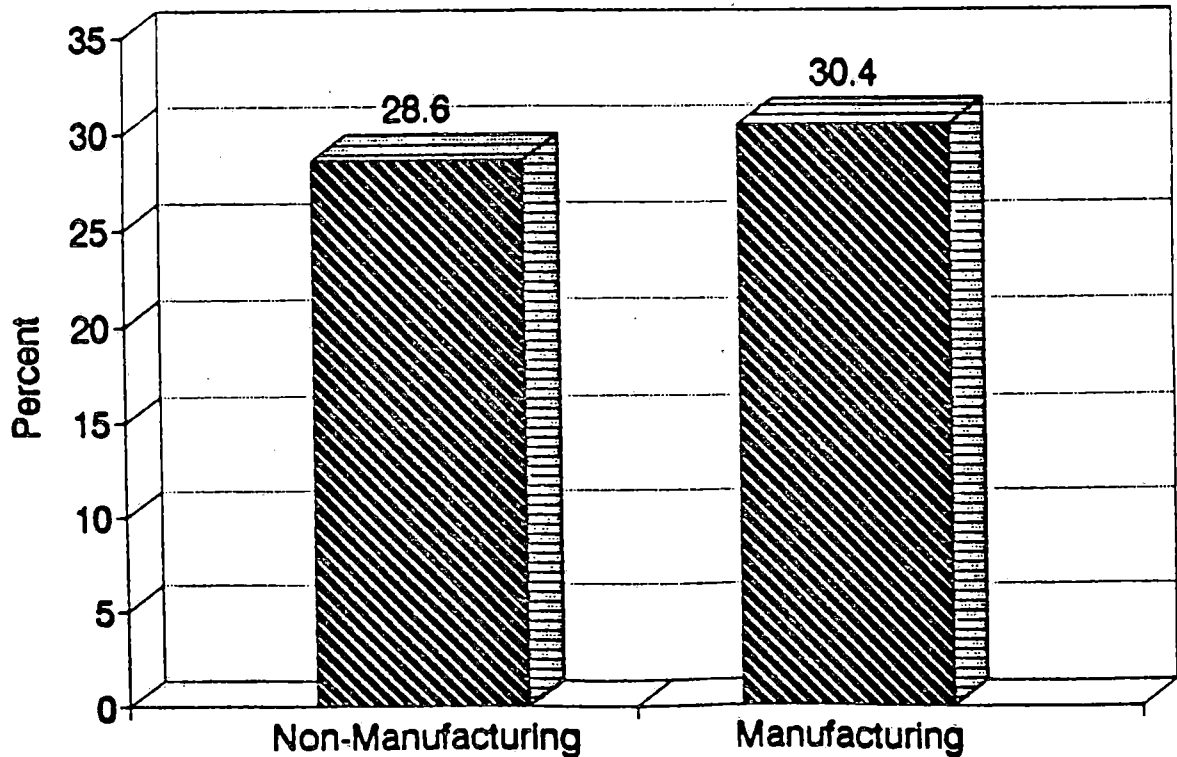
Chart 1



Growth of Real U.S. GNP 1979 to 1989

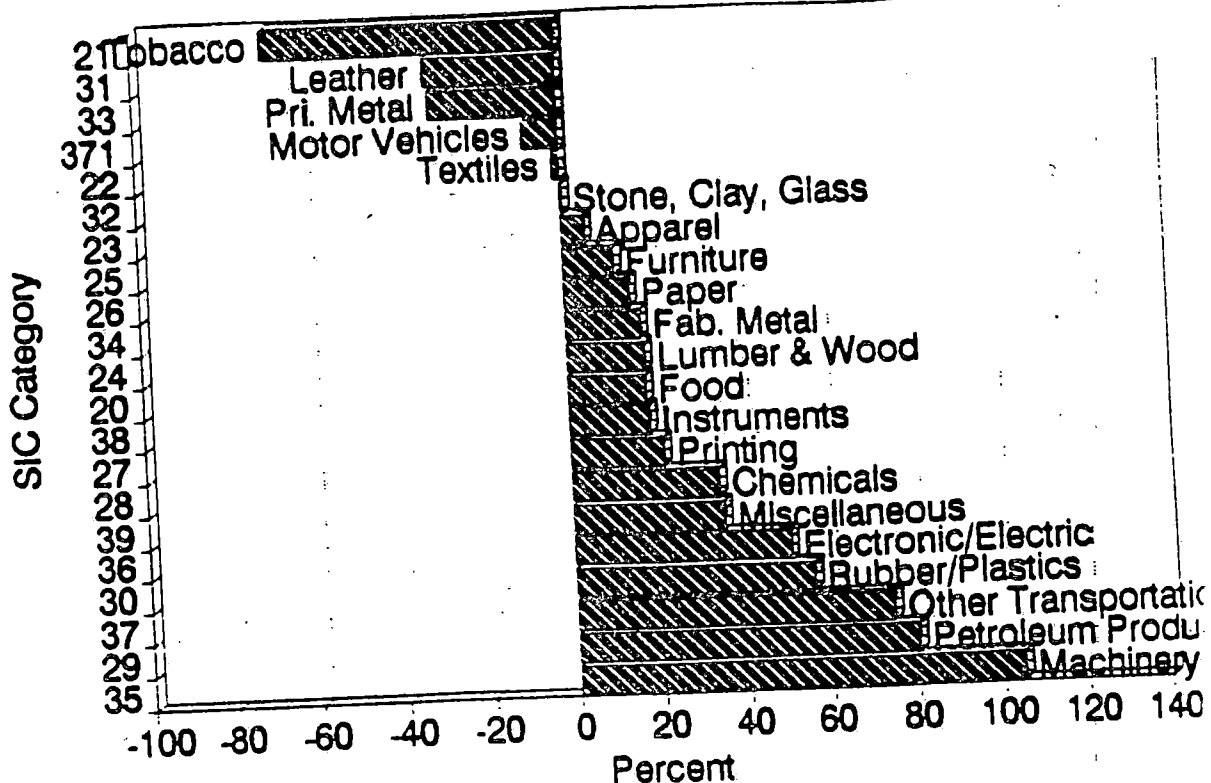
Source: See Text

Chart 2



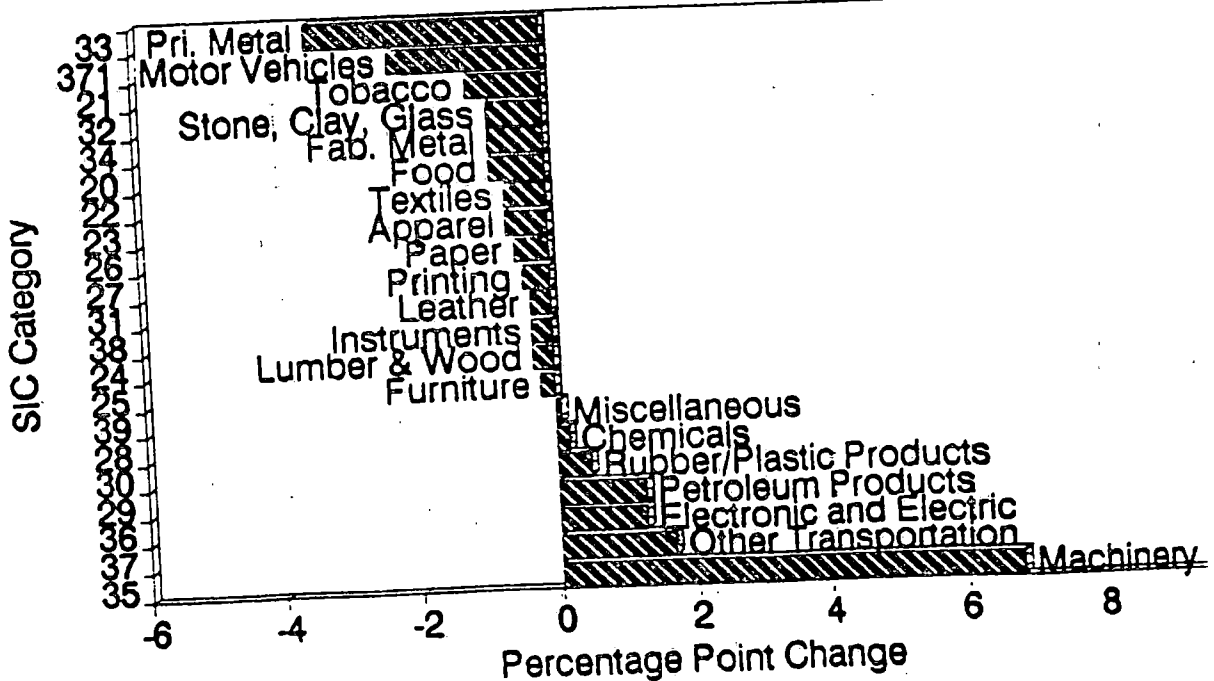
Growth of U.S. Manufacture by SIC Category: 1979 to 1989

Source: See Text



Change in Share of U.S. Manufacture Output 1979 to 1989: 21 SIC Categories

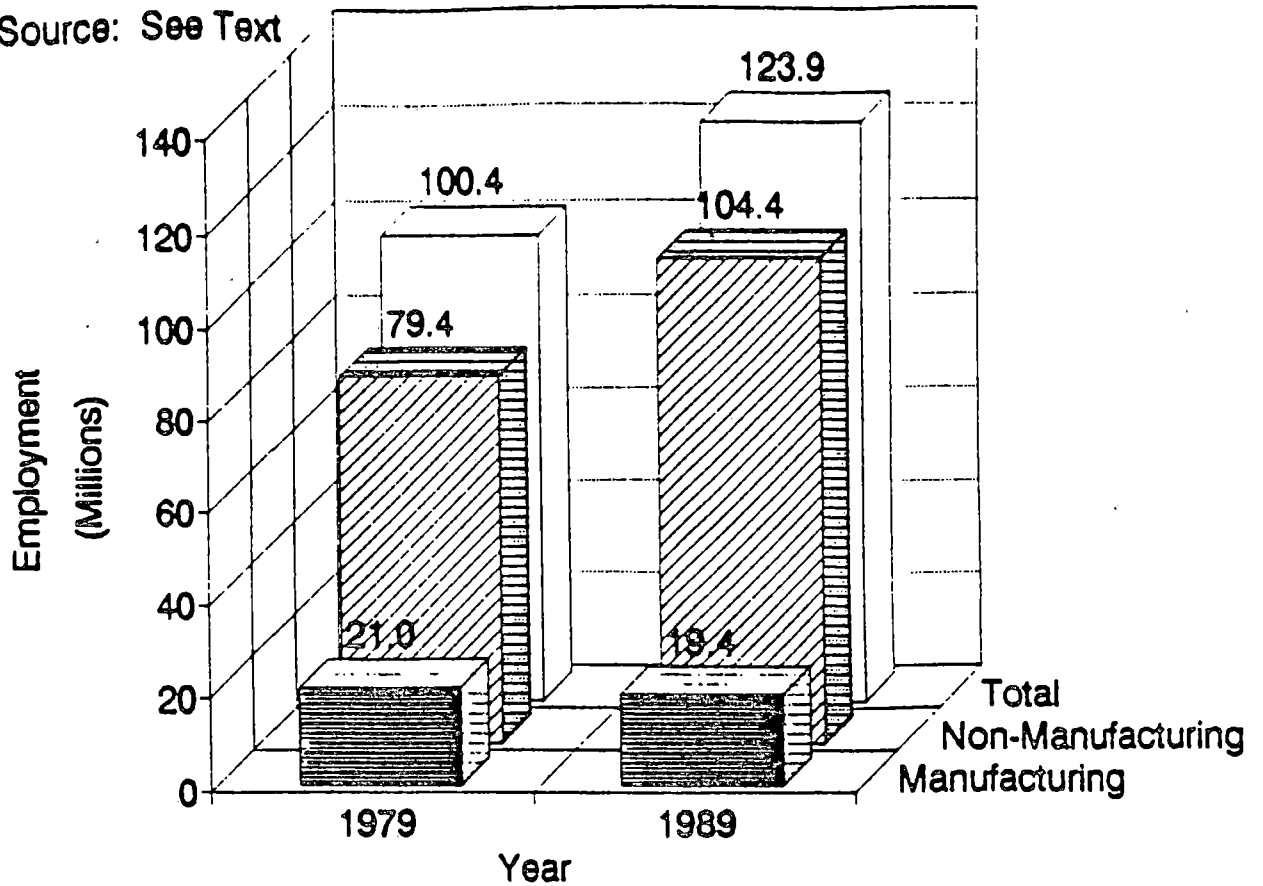
Source: See Text



U.S. Employment

Chart 5

Source: See Text



Change in Employment 1979 to 1989

Source: See Text

Chart 6

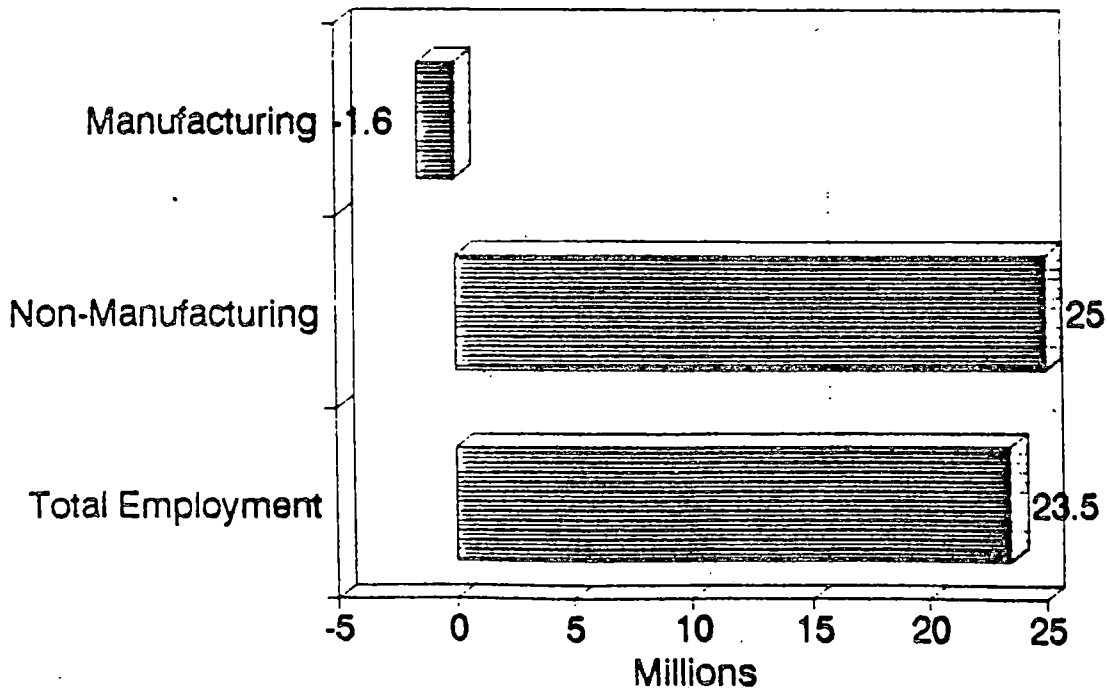


Table 1

	Percent Change 1979 to 1989	1989 (\$Billions Constant 1982)	1979
Gross National Product	29.0%	4,117.7	3,192.4
Non-Manufacturing	28.6	3,188.7	2,480.2
Manufacturing	30.4	929.0	712.2
Durable Manufactured Goods	34.8	583.7	433.1
Lumber and Wood Products	18.0	25.6	21.7
Furniture and Fixtures	11.9	12.2	10.9
Stone, Clay and Glass Products	0.4	23.6	23.5
Primary Metal Industries	- 30.0	36.9	52.7
Fabricated Metal Products	17.5	65.8	56.0
Machinery, except Electrical Electric and Electronic Equipment	104.3	174.9	85.6
Motor Vehicles and Equipment	50.8	90.8	60.2
Other Transportation Equipment	- 8.3	47.3	51.6
Instruments and Related Products	79.2	63.8	36.5
Miscellaneous Manufacturing Industries	18.8	26.6	22.4
Nondurable Manufactured Goods	23.4	345.4	279.0
Food and Kindred Products	18.2	70.3	59.5
Tobacco Manufactures	- 68.7	3.1	9.9
Textile Mill Products	- 1.8	16.7	17.0
Apparel and other Textile Products	5.2	22.4	21.3
Paper and Allied Products	15.0	33.0	28.7
Printing and Publishing	21.6	45.1	37.1
Chemicals and Allied Products	34.2	76.1	56.7
Petroleum and Coal Products	80.3	44.9	24.9
Rubber and Miscellaneous Plastic Products	56.3	30.8	19.7
Leather and Leather Products	- 31.0	2.9	4.2

Annual Average Change in GDP Components

Constant Dollar Basis: 1979-1989

Source: See Text

Chart 7

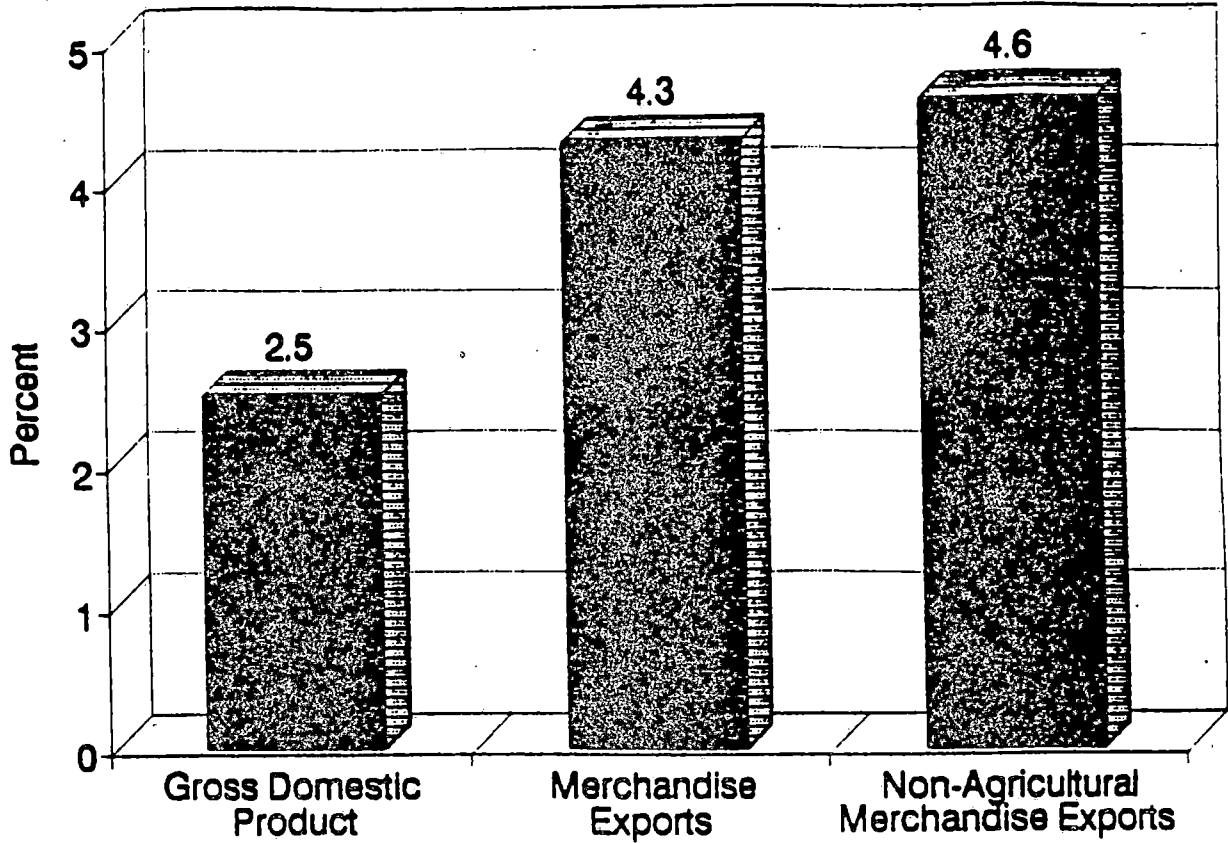


Table 2

Industry Rank
in 1989 (and
Share of Total
Production of
Manufactures

Industry Rank
in 1979 (and
Share of Total
Production of
Manufactures

(100.0%)	ALL MANUFACTURING INDUSTRIES	(100.0%)
1. (18.8%)	Machinery, except Electrical	1. (12.0%)
2. (9.8%)	Electric and Electronic Equipment	2. (8.5%)
3. (8.2%)	Chemicals and Allied Products	4. (8.0%)
4. (7.6%)	Food and Kindred Products	3. (8.4%)
5. (7.1%)	Fabricated Metal Products	5. (7.9%)
6. (6.9%)	Transportation Equipment, except Motor Vehicles	9. (5.8%)
7. (5.1%)	Motor Vehicles and Equipment	7. (7.2%)
8. (4.9%)	Printing and Publishing	8. (5.2%)
9. (4.8%)	Petroleum and Coal Products	11. (3.5%)
10. (4.0%)	Primary Metal Industries	6. (7.4%)
11. (3.6%)	Paper and Allied Products	10. (4.0%)
12. (3.3%)	Rubber and Misc. Plastic Products	16. (2.8%)
13. (2.9%)	Instruments and Related Products	13. (3.1%)
14. (2.8%)	Lumber and Wood Products	14. (3.0%)
15. (2.5%)	Stone, Glass and Clay Products	12. (3.3%)
16. (2.4%)	Apparel and Other Textile Products	15. (3.0%)
17. (1.8%)	Textile Mill Products	17. (2.4%)
18. (1.7%)	Misc. Manufacturing Industries	18. (1.7%)
19. (1.3%)	Furniture and Fixtures	19. (1.5%)
20. (0.3%)	Tobacco Manufactures	20. (1.4%)
21. (0.3%)	Leather and Products	21. (0.6%)

ECONOMY

CARS

The U.S. wants Japan to open its doors to auto imports. Meanwhile, the U.S. has a "voluntary restraint agreement" limiting the number of Japanese cars it imports. Cost to the U.S. consumer: \$5.8 billion.

FISH VS. FUR

The U.S. bans tuna imports from countries that do not enforce U.S. fishing standards on the protection of dolphins, as well as from countries that accept tuna from such violators. Four European countries suffered a loss of \$5 million in tuna exports to the U.S. Conversely, Europeans have proposed a ban on fur from countries that use the leghold trap, a method widely employed in the U.S. and Canada.

AGRICULTURE

The main stumbling block to the GATT agreement is the U.S. stand against European farm subsidies, which amounted to \$45 billion last year. Meanwhile, the U.S. government payments to farmers was \$8 billion.

TEXTILES

In 1987 about half of the textile and clothing exports from developing countries were subject to quotas and other restrictions. Protectionist measures in the industrialized countries cost developing countries \$40 billion each year.

CERAMIC TILES, TABLEWARE AND GARLIC

The U.S. has higher tariffs than Europe on many items. For example:

	U.S.	E.C.
ceramic tiles	20%	8%-9%
garlic	35%	16%
tableware	26%-35%	5%-13.5%

If all agricultural trade barriers were lifted, Latin America and the Caribbean would gain nearly a billion dollars a year. Current U.S. aid to this area is about the same, \$1.25 billion.

TIME Graphic by Joe Lortola

THE BREAKDOWN OF TRADE TALKS

Who Pays the Price

They are known as the Uruguay Round of the GATT talks, and that alone can make eyes glaze over. But the current stalemate could be costly for most Americans, and everyone else.

By J.F.O. MCALLISTER WASHINGTON

IN A RED TILE VILLA OVERLOOKING Lake Geneva, long-suffering diplomats shuttle in and out of meetings, their faces betraying anxiety that the most ambitious overhaul of international-trade rules since World War II is floundering. In Brussels, European Community officials denounce the hard-nosed obstinacy of their American counterparts. In Washington, George Bush struggles to convey optimism, dropping

vague references to "new ideas" that might break the logjam between Washington and the E.C. In Tokyo, ministers try quietly to bridge the gap between Europe and the U.S., lest there be any interruption of the trade machine upon which Japan's now imperiled prosperity depends.

The six-year-old bargaining session known as the Uruguay Round of GATT, the 107-nation General Agreement on Tariffs and Trade, is in trouble. Washington and the E.C. are locked in a quarrel over how much Europe will be allowed to subsidize its farmers and thus give them an advantage over everyone from American wheat growers to Third World farmers trying to produce cash crops for foreign markets. There are fears that unless something is done to break the stalemate, the world will slip into commercial darkness and political tension. Warns GATT's director general Arthur Dunkel: "There will be major negative consequences for social stability and even international peace."

Perhaps so. But it's hard for citizens in the industrialized U.S.—which is relative-

ly self-sufficient and historically prone to protectionist impulses—to get a grip on GATT, let alone get very alarmed about its potential failure. Successive rounds of negotiations, diligently conducted since 1947, have pushed down tariffs from 40% to 4% in member countries. Still, people find it difficult to connect the statistical aggregates of GATT-speak with their lives and wallets.

But open international commerce is as vital to American prosperity as it is to any other nation's. Last year the U.S. was the world's largest exporter, selling a record \$422 billion worth of goods and \$145 billion in services abroad. Each billion dollars of exported merchandise generates 20,000 jobs, and fully one-third of the country's economic growth in the past five years has flowed from the surge in foreign sales. For example, more than \$20 billion in revenues made by U.S. airplane manufacturers comes from sales abroad, money that then finds its way into the cash registers of grocery and shoe stores and insurance agencies in the communities where

the workers live. Corn growers bring more than \$6 billion of cash into the country, scientific-instrument makers more than \$12 billion. Contrary to the protectionist shibboleths, imports benefit the country as well: from cars to VCRs, the American consumer saves money because of cheap products shipped from overseas.

Since the U.S. market is fairly open, a GATT accord is expected to spur new exports for American firms while adding little in the way of foreign competition that U.S. products do not already face. Carla Hills, U.S. Trade Representative, estimates that a successful Uruguay Round (so named for the talks' original venue) would generate an additional \$5 trillion in world output over the next decade, of which the American share would be a hefty \$1.1 trillion. It's "like writing a check," explains Hills, "to every American family of four for \$17,000, payable over 10 years."

No one should wait by the mailbox. But American industries and individuals do stand to gain materially from a successful Uruguay Round. The pact, as it stands, contemplates a one-third drop in average tariffs and safeguards against hidden export subsidies. It would also provide a stronger forum for settling trade disputes amicably than unilateral reprisals, such as the \$1 billion in new tariffs on European goods that the U.S. threatened last week in retaliation for E.C. subsidies on oilseeds like soybeans.

The Uruguay Round is especially interesting to American business because it tackles whole new areas of commerce, perhaps one-third of the world economy, previously left outside GATT controls: services like banking, insurance and telecommunications; intellectual property such as patents, software and video recordings; and agriculture. These are all areas where U.S. firms could strenuously compete if foreign governments treated them no worse than homegrown firms. For example:

► Arthur Andersen, the accounting giant, cannot penetrate the carefully designed thicket of regulations that keeps its auditors from practicing in Turkey.

► U.S. banks are denied access to automated-teller networks in some Asian countries.

► IBM estimates that software duplication, especially in countries with weak antipiracy laws, causes the company to lose more than \$1 billion in sales each year.

► The foreign equivalent of "Buy American" laws have barred General Electric from selling a single steam turbine to generate electricity in Europe since 1947.

But getting from here to GATT will require a slog through the farmyards of the world. "The key to the whole GATT equation is agriculture," says a senior U.S. official. "For the Latin Americans and the

Asians to make commitments in services and intellectual property, they have to get access to agricultural markets."

Precisely the problem, say farmers in Europe. They like the quotas and tariffs provided by their governments to bolster their incomes. And they fear the monetary loss the Uruguay Round would bring about in order to give foreign products a fair shake. The E.C. doled out \$45 billion in subsidies last year, \$4,100 a farmer, even though farming generated a tiny 3.5% of European output. Despite seeking their own, albeit smaller, subsidies from Washington, American farmers resent the E.C.'s largesse and threaten to fight any GATT treaty that fails to curb it. But the E.C. has dug in.

Washington, despite its free-market rhetoric, spends about \$8 billion a year to underwrite American farmers. Trade bar-



The people who will gain jobs in computers and other services because of GATT don't know who they are yet.

riers further boost farm income. Quotas keep cheaper foreign sugar, for example, out of U.S. supermarkets, which cost American consumers \$1.9 billion in 1987. But these programs would continue almost untouched by the Dunkel proposal, which gives credit for existing U.S. efforts to scale back subsidies.

While Americans may sneer at the far more expensive addiction of Europe's farmers to subsidies and trade barriers, some of Uncle Sam's industries cannot live without a stiff fix from Washington. U.S. shipyards enjoy the protection of a 50% tax imposed on nonemergency repairs of U.S.-owned ships in foreign yards. Another boost to maritime interests is a law that prohibits foreign-built vessels from carrying goods from one American port to another. In Geneva, U.S. negotiators say they want to exempt shipping altogether from the new GATT regime. Extensive textile quotas, which the Uruguay Round proposes to bring under GATT for the first time, raise the bills of every American family almost \$500 a year, according to a 1987 study. But the beneficiaries of such protection—politically well organized textile manufacturers and

unions—can exert political leverage, while those who pay for it are widely dispersed.

"The people who will gain jobs in computers and services because of GATT don't know who they are yet," says a congressional aide. "The people who will lose their jobs in textiles know damn well who they are." The Bush Administration welcomes the Uruguay Round precisely because it will strengthen Washington's hand in just saying no to inefficient firms looking for a bailout. "This is a form of deregulation at home," observes a senior official.

If such pocketbook arguments for liberalized trade aren't convincing enough, there are some compelling political ones. The countries in Latin America, Eastern Europe and the former Soviet Union now groping toward economic liberalism covet GATT membership as a way to reinforce market-oriented reforms and to win foreign investment. It would be unfortunate for GATT to wither and die just as these countries are joining up.

Moreover, many experts predict that a collapse of the Uruguay Round would shove the world economy into a protectionist spiral, leading to serious political frictions between the U.S. and its major trading partners reminiscent of the Great Depression. "With the collapse of communism," says a White House official, "we're finding that our relations with countries around the world are focused more on economics and that the irritation points are economic too." If these irritations accumulate, huge regional trading blocs under construction in Europe and the Americas could be joined by one in Asia, all of them bristling with trade barriers.

Other analysts doubt that the after-shocks of a GATT failure would be so cataclysmic, and they point out that GATT rules were unable to solve America's trade problems with Japan in the 1980s. Some environmentalists argue that a strong free-trade regime will block individual countries from banning ecologically suspect products or subsidizing conservation, and they dislike GATT's relentless quest for economic growth.

What's next? Washington is promoting the July 6 summit of the leaders of the seven industrialized nations, known as the G-7, as the logical deadline for resolving its impasse with Europe over farm subsidies. "These are very difficult problems," says a senior Administration official, "but at some point everybody has to hold hands and jump into the water." The diplomats in Geneva may find their job easier if they recognize that any lengthy negotiation reaches a point where the best becomes the enemy of the good. But they will also be aided by a broader constituency aware of what it all means for them.

—With reporting by Adam Zagorin/Brussels

THE WHITE HOUSE
WASHINGTON

DATE:

5-28

FROM THE PRESIDENT

TO:

Speechwriters

Some good NAFTA

facts here

OK



THE SECRETARY OF THE TREASURY
WASHINGTON

May 27, 1992

MEMORANDUM TO THE PRESIDENT

FROM:

Nicholas F. Brady *NFB*

As mentioned in the PCG meeting this morning, I think your speeches ought to include examples of how NAFTA and an open trading system works in addition to expressing determination to complete the NAFTA agreements. This would give specificity and give people a better understanding of what you are driving at. I am sure your own speech writers can come up with plenty of good examples but here are some that I have been using:

"U. S. exports to Mexico have almost tripled since 1986, creating 300,000 American jobs."

"In 1991 U. S. export growth to Mexico outpaced import growth by 5 to 1, providing a \$1.6 billion trade surplus."

"The new jobs are not occurring only in the obvious growth regions of the country. We would expect the border states of California and Texas to be among the chief exporters to Mexico, and they are. But who would guess that our top ten exporters to Mexico today would include Michigan, Illinois, New York, Pennsylvania and Florida? They do."

"U. S. exports to Latin America and the Caribbean have doubled since 1986. They now amount to almost \$63 billion annually and have created over 600,000 U. S. jobs."

"Over the last five years, export expansion has accounted for over one-third of GDP growth, and for every 2 1/2 percent growth in GDP, we create almost 2 million new jobs per year."

Withdrawal/Redaction Sheet

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Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01a. Memo	Michele Nix to David Demarest, Speechwriters, Researchers, Re: New Numbers for State Exports/ Employment. (1 pp.)	03/02/92	P-5	

Collection:

Record Group: Bush Presidential Records
Office: Speechwriting, White House Office of
Series: Aarhus, Carol
Subseries: Alphabetical File
WHORM Cat.:
File Location: Trade

**Open on Expiration of PRA
(Document Follows)**
By CAF (NLGB) on 4/5/05

Date Closed: 12/10/2004	OA/ID Number: 13866-009
FOIA/SYS Case #: S	Appeal Case #:
Re-review Case #: 2005-0480-S	Appeal Disposition:
P-2/P-5 Review Case #:	Disposition Date:
AR Case #:	MR Case #:
AR Disposition:	MR Disposition:
AR Disposition Date:	MR Disposition Date:

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National Security Classified Information [(a)(1) of the PRA]
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- P-3 Release would violate a Federal statute [(a)(3) of the PRA]
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
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- (b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- (b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- (b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- (b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- (b)(9) Release would disclose geological or geophysical information

THE WHITE HOUSE
WASHINGTON

March 2, 1992

MEMORANDUM FOR DAVID DEMAREST
SPEECHWRITERS
RESEARCHERS

FROM: MICHELE NIX 

SUBJECT: NEW NUMBERS FOR STATE EXPORTS/EMPLOYMENT

Early last week I received information from Commerce re state export/employment figures for Georgia. Research had earlier received likewise data from USTR. The numbers didn't match.

I put in a call to David Walters, chief economist at USTR, about this problem -- which all too often occurs. He apologized, saying that the President shouldn't be receiving two different sets of info. Commerce, Walters explained, wields data from 1987 figures -- the latest data we have in most cases. USTR believes that the President should not have to quote figures from when he wasn't even President and that are often not the best numbers available -- so USTR prefers to make reasoned estimates.

Walters arranged a meeting last week with two big wheels at Commerce: Tony Villamil, their chief economist; and Mark Plant, the Under Secretary for Economic Affairs. A policy decision was made: to have the President use up-to-date estimated figures -- with the understanding that we would be sure to use the word "estimated" in these cases.

Walters is one of the few departmental "number" people who seem to understand what these numbers are used for -- the impact they can have, and how they can be called into question if inaccurate. Walters did a terrific job at pulling this all together for us at the last minute and helping us rework the new and improved numbers for Georgia.

His staff is working with Commerce to do the same for the remaining states -- which should be ready early this week. Researchers: Any questions you may have about your speeches for this week, give David Walter's a call.

I've attached a copy of a memo I received from Walters, which outlines the new policy.

Instructions to Sender: Please be certain all shaded areas are completed and no staples.

FACSIMILE COVER SHEET OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President
Washington, D.C. 20506

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TO: NAME:	AGENCY:	PHONE #:	FAX #:
Steve Ferrar	White House	() 456-23157	() 456-7739
Michele Nix	White House	() 456-7750	() 456-6218
Tony Villamil	Commerce	() 377-8181	() 377-3726
Mark Plant	Commerce	() 377-3727	() 377 0432
_____	_____	() _____	() _____
_____	_____	() _____	() _____

FROM: David Walters

PHONE: (202) 395-3026

FAX #: (202) 395-~~5583~~ 3583

CONTACT: If There are any problems please call: (202) 395-3026

SUBJECT: _____

Withdrawal/Redaction Sheet (George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01b. Memo	David Walters to Michele Nix, Re: Data on State Exports and Related Employment. (2 pp.)	02/27/92	P-5	

Collection:

Record Group: Bush Presidential Records
Office: Speechwriting, White House Office of
Series: Aarhus, Carol
Subseries: Alphabetical File
WHORM Cat.:
File Location: Trade

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

February 27, 1992

Memorandum To: Michele Nix, White House Speech Writing
From: David Walters, Chief Economist, USTR
Subject: Data on State Exports and Related Employment

This memorandum describes an understanding I have reached with Tony Villamil, the Chief Economist at Commerce and with the concurrence of Commerce's Acting Under Secretary for Economic Affairs, Mark Plant.

In order for the President to have reasonable, up-to-date estimates of state exports and related employment, USTR and Commerce have agreed to the development of estimates for 1991, based on data for 1987, the most recent year available from the Bureau of the Census.

At your request, USTR has made such estimates for Georgia. They are provided, along with a description of the method of estimation, at the end of this memorandum. USTR is currently developing similar estimates for all 50 states. These estimates should supersede estimates for 1990 circulated earlier.

Because the 1991 figures are based on 4-year extrapolations of available data, both USTR and Commerce agree that they should be carefully and accurately characterized as "estimates" when used. In addition, the Commerce Department has a strong preference that they be referred to as "estimates based on national trends."

Any technical questions about estimates should be addressed to:

David Walters
Chief Economist
USTR
(202) 395-3583

or

Tony Villamil
Chief Economist
U.S. Department of Commerce
(202) 377-8181

In regard to the President's use of state export numbers, Dr. Villamil has suggested that someone check with local Chambers of Commerce as they sometimes produce estimates of state exports and related employment already in significant circulation in the state.

Estimates for Georgia:

	<u>1987</u>	<u>1991 (Estimated)</u>
Exports (direct and indirect) of Manufactures	\$7.7 billion	\$13.7 billion
Manufacturing and Non-manufacturing Employment Related to Georgia's Export of Manufactured Product	114,400	164,984

The following estimation technique was used:

- Each 2-digit SIC (Standard Industrial Classification) category of Georgia's direct and indirect exports of manufactures reported for 1987 was increased by the rate of growth between 1987 and 1991 of U.S. exports (all 50 states) in the same category.
- Manufacturing and non-manufacturing employment related to Georgia's exports of manufactures in 1987 was increased proportionally to the increase in the value of nominal exports in each SIC category.
- The 1991 exports for all SIC manufacturing categories were totalled for an estimate of the current dollar value of Georgia's direct and indirect exports of manufactures in 1991.
- 1991 export-related employment was similarly totalled for all SIC manufacturing categories. This 1991 employment total was then reduced 18.7 percent to take account of productivity gains in export employment and price inflation in export values between 1987 and 1991. This reduction was estimated from data provided by Dr. Villamil's office on the number jobs supported by each billion dollars in total U.S. exports in 1987 and 1990. A figure for 1991 was extrapolated from the 1987 to 1990 data.

cc: Ambassador Hills
 Ambassador Katz
 Ambassador Moskow
 Gary Edson
 Mark Plant (Commerce)
 Tony Villamil (Commerce)
 Steve Farrar (White House)

'Fair Trade' Is Unfair

BY JAMES BOVARD

From Rep. Richard Gephardt denouncing the Japanese, to Sen. Max Baucus denouncing the Canadians, to environmentalists denouncing the Mexicans, allegations of unfair foreign trade practices may be at an all-time high. Unfortunately, the pursuit of fair trade has become a license for politicians to exercise vast arbitrary power over American consumers. Fair trade is a moral delusion that could be leading to economic catastrophe.

When politicians call for fair trade with foreigners, they almost always hypocritically use a concept of fairness that makes a mockery of the word's normal usage. In exchanges between individuals—and in contract law—the test of fairness is the voluntary consent of each party to the bargain: "the free will which constitutes fair exchanges," as Sen. John Taylor wrote in 1822. When politicians speak of unfair trade, they do not mean that buyers and sellers did not voluntarily agree, but that federal officials disapprove of the bargains American citizens chose to make. "Fair trade," as the term is now used, usually means government intervention to direct,

control or restrict trade. Fair trade means government officials deciding what Americans should be allowed to buy and what prices they should be forced to pay.

Fair trade often consists of some politician or bureaucrat picking a number out of thin air and imposing it on foreign businesses and American consumers. Fair trade means that Jamaica is allowed to sell the United States only 950 gallons of ice cream a year, that Mexico may sell Americans only 35,292 bras a year, that Poland may ship us only 350 tons of alloy tool steel a year and that Haiti is allowed to sell the United States only 7,730 tons of sugar. Fair trade means permitting each American citizen to consume the equivalent of only one teaspoon of foreign ice cream per year, two foreign peanuts per year and one pound of imported cheese per year. Fair trade means that the U.S. Congress can dictate more than 8,000 different taxes on imports, with tariffs as high as 458 percent.

Webster's New World Dictionary defines "fair" as "just and honest; impartial; unprejudiced." Yet, most of the foreign trade practices deemed unfair are not considered unfair if done by the U.S. government or by an American company. The United States levied an import surtax on Thai rice in 1986 because of a small Thai government rice subsidy—though the U.S. government simultaneously provided a subsidy more than a hundred times larger to American rice growers. American trade law requires foreign companies to earn a significantly higher profit than American companies—or else be penalized as if they are selling at a loss. In federal unfair-trade investigations, foreign compa-

nies are assumed to be lying and American companies are assumed to be telling the truth.

The official U.S. definitions of unfair trade are proliferating almost as fast as the number of trade lawyers in Washington, D.C. In recent years the U.S. government has penalized foreign farmers for not paying wages to their wives and children, foreign governments for not coercing foreign companies to buy more American products and foreign companies for relying on part-time labor, making charitable donations, not having computerized sales records and failing to charge their American customers the highest prices in the world. Federal law currently assumes that foreign competition that prevents American companies from raising their prices unfairly injures them.

Federal trade policy intentionally sacrifices some industries to other industries. American manufacturers have been forced to grovel before Commerce Department officials for each ton of specialty steel they are allowed to import. Restrictions on steel-crankshaft imports in 1987 hurt diesel-truck engine manufacturers, restrictions on ball-bearing imports in 1989 hurt scores of American industries and restrictions on flat-panel computer displays hurt computer makers in 1991. Fair trade is profoundly anticompetitive: trade restrictions have given American firms monopolies or duopolies on the sale of steel rails, bicycle tires, tungsten ore,

textile fabrics and numerous chemicals. Thanks to economically perverse U.S. trade laws, the more inefficient and backward an American industry is, the more likely the U.S. government will blame foreign companies for its problems.

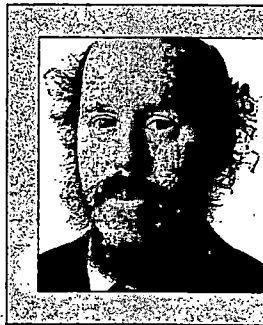
American politicians are profiteering on allegations of foreign unfairness. For American trade policy, need is the basis of right, and po-

litical-campaign contributions are the measure of need. The more foreign unfair practices American politicians claim to discover, the more power they seize over what Americans are allowed to eat, drink, drive and wear. Each new definition of unfair trade becomes a pretext to further restrict the freedom of American citizens. In practice, fair trade means "From each according to what politicians demand, to each according to what politicians choose to give."

Medieval pursuit: Every trade barrier undermines the productivity of capital and labor throughout the economy. A 1984 Federal Trade Commission study estimated that tariffs cost the American economy \$81 for every \$1 of adjustment costs saved. Restrictions on clothing and textile imports cost consumers \$1 for each cent of increased earnings of American textile and clothing workers, according to the London-based Trade Policy Research Centre. According to the Institute for International Economics, trade barriers are costing American consumers \$80 billion a year—that's equal to more than \$1,200 per family.

Government cannot make trade more fair by making it less free. The time has come to deregulate our national borders—to end the medieval pursuit of a "just price" for imports—and to cease allowing government officials to have economic life-and-death power over American businesses. It should not be a federal crime to charge low prices to American consumers.

Bovard, the author of "The Fair Trade Fraud" (St. Martin's Press), writes frequently on trade issues.



**U.S. trade
restrictions
cost American
consumers
billions of
dollars a year**

BROOKINGS

R E V I E W



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Carol Blymire
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WHO RUNS OUR CORPORATIONS?

SPURRING GROWTH IN LATIN AMERICA

DOES PRISON PAY?

GATT: BACK ON TRACK FOR NOW

WILL QUEBEC SECEDE?

A Burdensome Legacy

The Reagan Administration's Trade Policy

P A U L A S T E R N

Congress, the executive branch, and the U.S. International Trade Commission all help shape U.S. trade policy. Presidential leadership, however, is critical if the United States is to continue on the path of trade liberalization charted in the 1930s and prevent domestic interest groups from taking over the trade policy process. In this regard, the Reagan administration deserves low marks for its stewardship of America's free trade tradition. Notwithstanding his free trade rhetoric, Ronald Reagan was unable to resist the politics of protectionism.

At the root of the Reagan administration's trade troubles was its chosen macroeconomic policy mix—a loose fiscal policy, which resulted in record budget deficits, and a tight monetary policy, which kept interest rates high. Interest rates had started to shoot up in the late 1970s, but their stinging effects continued through the deep 1981–82 recession. Among the worst casualties were the heavily cyclical auto and steel industries, whose international competitiveness had already been slipping in the 1970s.

The high interest rates also sent the dollar's exchange rate soaring. While the strong dollar facilitated the financing of the U.S. fiscal deficit and helped to fight inflation, it compounded the trade woes of American industry, making imports cheaper in the U.S. market and exports more costly overseas. Record-breaking trade deficits rocked U.S. industries and workers, and pressures for protection mounted.

The administration's response to those pressures was to talk tough and spurn the existing structures for dealing with trade complaints, but, in private, to capitulate and to make special arrangements for politically important industries. As David Stockman, the president's Director of the Office of Management and Budget, put it, the strategy was to "espouse free trade, but find an excuse on every occasion to embrace the opposite. As time passed, we would find occasions aplenty."

To be sure, Reagan's second term showed improvement, be-

ginning with the September 22, 1985, Plaza Accord decision to join with U.S. trading partners to allow the dollar to depreciate. The new team of trade policymakers—Treasury Secretary James A. Baker III and U.S. Trade Representative Clayton Yeutter—began to take steps to open markets abroad rather than protect them at home. The administration concluded negotiations for a U.S.-Canada Free Trade Agreement and launched the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) multilateral trade talks.

But it was too little, too late. By the mid-1980s the genie of protection was out of the bottle.

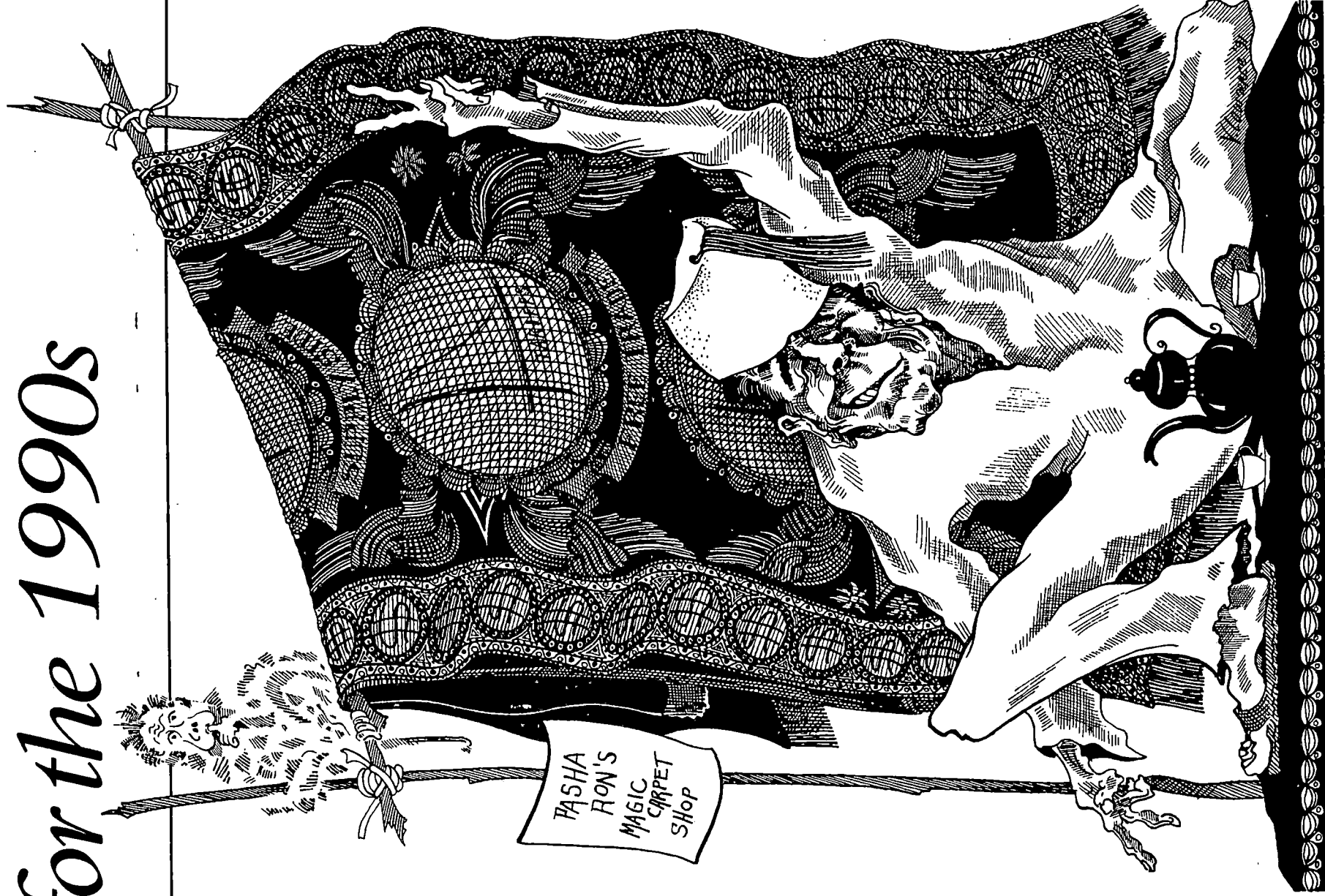
Rules versus Politics

The United States has two systems for dealing with trade complaints. Broadly speaking, the first system is "rule-oriented," while the second is "political." The rule-oriented system is intended insofar as possible to be free of politics. When members of an industry allege "unfair" competition, the relevant statutes require investigations by the International Trade Administration (ITA) of the Department of Commerce and by the U.S. International Trade Commission (ITC), an independent agency. In this system, criteria are set, transparency prevails, decisions are made on the record and are all sanctioned by multilateral covenants under the GATT. All industries and all countries, large and small, get their day in court. Procedures are definite, and all litigants are aware of them.

Most investigations involve allegations of unfair and injurious competition from subsidized imports or dumped imports (imports sold at less than fair value) and are intended to ensure "fair" pricing. Complaints are filed under antidumping and countervailing duty statutes (Title VII of the Tariff Act of 1930). Once a complaint is made, the ITA rules on whether dumping or subsidization has in fact occurred as alleged. The ITC rules in a parallel investigation on whether a petitioning domestic industry is suffering "material" injury as a result of dumped or subsidized imports.

Paula Stern is president of The Stern Group, an international trade and economic advisory firm, and fellow at the Foreign Policy Institute of Johns Hopkins University. From 1984 to 1986, she chaired the U.S. International Trade Commission, where she served as commissioner from 1976 to 1987. She is the author of Water's Edge—Domestic Politics and the Making of Foreign Policy. This article is drawn from "The Reagan Administration's Trade Policy," in American Economic Policy in the 1980s, edited by Martin Feldstein (University of Chicago Press, forthcoming).

for the 1990s



If the ITA and the ITC both make positive determinations, a dumping or countervailing duty is applied to remove the unfair advantage of the import. The ITA determines the level of the duty based on the margin of "unfair" activity it has found. Another arm of the executive branch, the Customs Service of the Treasury Department, collects the duty.

The International Trade Commission is specifically equipped to shield Congress and the president from political pressures. Founded in 1917 as the Tariff Commission, it was designed by progressives to "take the tariff out of politics." The politics, however, did not come out right away. Under the U.S. Constitution the president manages foreign affairs and Congress regulates foreign commerce. Both the president and Congress play important roles in developing international trade policy, and, not surprisingly, the Tariff Commission found itself caught in the middle when elected officials—driven by constituent concerns—either urged import restraints (for domestic interests) or import liberalization (for foreign policy or diplomatic reasons).

Changes in the law, particularly in 1974 and 1979, increased the agency's independence, especially of the White House. The Trade Act of 1974 required that the ITC budget go directly to Congress without passing the scrutiny of the Office of Management and Budget. In addition, the act stipulated that members of the Commission be appointed by the president, with the advice and consent of the Senate, for nine years—one year longer than any president can sit in the White House. An appointee cannot be reappointed by the president, so decisions at the Commission need never be made with the thought of pleasing or displeasing the White House or Capitol Hill. The chair rotates every two years between the parties, and the president may not designate either of his last two appointees to be chair—again as a way of insulating Commission decisions from diplomatic pressures that might be transmitted through the White House.

Even so, the ITC is not entirely divorced from the political process. Appointments, of course, are made by the White House. Congress—particularly the chairmen of the Senate Finance Committee and the House Ways and Means Committee—tries to influence the appointment process. During the Reagan presidency, the White House attempted to tip the party balance and strengthen White House control over the Commission through the timing and designation of members and the chair. On at least one occasion Congress objected to White House manipulation of the rules for selecting members and designating the chair, and the chair eventually rotated as the statute had originally envisioned.

The very fact that the ITC conducts its "unfair imports" investigations in tandem with the ITA, which is part of the executive branch, suggests that the "rule-oriented" process itself is neither entirely mechanistic nor divorced from the political process. Rules on unfair imports leave room for judgment and discretionary behavior on the part of politically appointed decisionmakers. Moreover, import relief procedures may be vulnerable to political manipulation since the same office both investigates the allegations and decides the issue.

The Political System

In the overtly political system for resolving trade disputes, the decisionmakers are elected officials who are directly exposed to political muscle. Within this system, the guidelines are obviously less clear.

Both Congress and the president can operate outside the confines of the formal trade laws. For its part, Congress can pass new laws to supersede the old—if the president goes along and does not veto the changes. Presidents can and have used their

constitutional authority to persuade foreign governments to limit their exports to the United States and have established administrative mechanisms to implement the restraints. President Johnson did so in 1968 to forestall congressional legislation that would limit carbon and alloy steel imports into the U.S. market. Both Japan and the European Community agreed in December 1968 to a three-year voluntary restraint agreement for their steel exports. Subsequently, President Nixon renewed the steel agreements. In January 1978 the Carter administration began monitoring the price of steel imports through a "trigger price" mechanism. The trigger price was the estimated landed costs of the world's most efficient producer—at that time, Japan—for imported steel. If a foreign producer sold steel in the United States below that price, formal antidumping proceedings would be initiated by the ITA and the ITC.

The Reagan administration, however, took unprecedented advantage of the political system. Without the encumbrance of statutory standards, it unilaterally decided what imports were "fair" or injurious in a number of significant trade cases. At times, the political system simply swamped the rule-oriented system.

The Political Pressures

Throughout 1981–85, as U.S. industries staggered under the burden of a soaring dollar, burgeoning import competition, and declining exports, the Reagan team talked "free trade." It seemed to disregard the effect of the superdollar on U.S. manufacturing and on farm sectors exposed to foreign competition. By the mid-1980s the perception was rife that the administration was neither adequately nor consistently using the means to defend U.S. trade interests that Congress had authorized in earlier legislation.

One congressionally sanctioned trade remedy authorized the administration to take a variety of actions to improve access to foreign markets. Section 301 of the Trade Act of 1974 provided the president with tools to open foreign markets to U.S. products. It allowed the president to open negotiations with any country that unfairly burdened or restricted sales of U.S. goods in its markets. If negotiations were unsuccessful, the United States could retaliate by imposing tariffs or quotas. But, especially during its first term, the Reagan administration virtually ignored its authority to bring section 301 cases.

Another remedy was Trade Adjustment Assistance, which provided maintenance payments and job retraining to workers who lost their jobs because of import competition. Created in 1962 to gain labor's support for the Kennedy Round of the GATT multilateral trade talks, TAA was enlarged and liberalized in 1974 to win labor support for the Tokyo Round. During 1974–80—under Presidents Nixon, Ford, and Carter—merchandise imports more than doubled, and the numbers of workers receiving TAA grew significantly. Republican critics claimed that TAA was used by the Carter administration to gain labor support in the 1980 election, and many neutral observers noted that TAA was not fully doing the job of retraining workers or dampening pressures for protectionism. In any event, after Reagan took office, he persuaded Congress to eliminate funding for TAA.

But at the same time that the administration criticized or ignored the trade laws and adjustment programs developed by Congress, it was negotiating "voluntary" agreements with U.S. trading partners to limit imports in a few politically important industries.

Automobiles

In 1980, at the end of the Carter administration, the United Auto Workers and Ford Motor Corporation petitioned the ITC for import relief. The autoworkers had already petitioned for TAA, and

The Reagan administration took unprecedented advantage of the political system. Without the encumbrance of statutory standards, it unilaterally decided what imports were "fair" or injurious in a number of significant trade cases. At times, the political system simply swamped the rule-oriented system.

approximately \$1 billion was paid to autoworkers who lost their jobs because of imports.

In the ITC automobile investigation, unfair trade was not even alleged. The ITC acted on the petition for relief under section 201, which provides for investigation of cases of injury from *fairly* traded imports. In this case, the ITC issued a negative section 201 finding: imports were *not* the most important cause of serious injury. But the administration ignored the finding and the law. For the first and only time ever, a president chose to ignore the political shield the ITC provided and proceeded to provide protection for an industry found *not* injured by imports.

In the spring of 1981 support was growing in Congress for automobile import quotas, domestic content legislation, and sectoral reciprocity in conducting trade relations. Some have argued that Reagan had no choice but to bow to congressional pressure. But in 1981 the president was basking in his overwhelmingly large electoral mandate and was still in his honeymoon period with Congress. Had Congress enacted a quota or domestic content bill—something it never did—he had the political clout to veto it and to beat back any attempt to override the veto.

Reagan, however, had another agenda. According to David Stockman's 1986 account, on March 3, 1981, Transportation Secretary Drew Lewis announced in a Cabinet Council meeting that "the time had come to 'keep faith with our campaign pledge' to restrict Japanese auto imports." And sure enough, the following May the Japanese "did mysteriously 'volunteer' to limit their auto exports to 1.68 million vehicles."

The voluntary restraint agreements with the Japanese auto industry were in effect through 1984 and brought U.S. automakers

some \$9 billion in added revenue. But an ITC study in 1985 showed that Japan earned an extra \$5 billion as well. The Japanese renewed the VRAs unilaterally for a fifth and again for a sixth year, giving us the new trade phenomenon of "monolateralism," or preemptive self-imposed protection for one's ailing trading partner.

Steel

In October 1984, one month before the presidential election, the administration again ignored the ITC, this time dismissing a section 201 affirmative finding of import injury *from fair competition* on several categories of carbon steel. Instead, the administration's negotiators concluded voluntary restraint agreements with 27 different countries, *expanding* the categories of steel to include specialty steel. The administration also muddied the distinction between fair and unfair competition by justifying its VRA quotas as a necessary response to "unfair" import competition in steel.

William Niskanen, one of three members of the president's Council of Economic Advisors, has candidly acknowledged the politics surrounding the decision: "As was characteristic of the 1984 campaign, the administration was on both sides of this issue, articulating a policy of free trade and implementing an extensive set of new import quotas."

The upshot of the decision was the same as in the case of autos. One of the country's most politically influential industries gained protection from imports in a way that deviated from congressionally sanctioned rules that call for temporary relief extended on a nondiscriminatory basis.

Again, both Congress and the White House lined up on the side of import relief. But Congress attempted to move beyond

mere protection to encourage long-term adjustment. At the urging of the United Steelworkers of America, it passed the Steel Import Stabilization Act requiring that any cash flow derived from import relief be reinvested into modernization and retraining workers. The act required the president, the ITC, and the U.S. Trade Representative to monitor the reinvestment. The administration initially opposed the legislation, which it perceived as "industrial policy," but eventually ironed out a compromise.

Renewed Congressional Assertiveness

The beginning of wisdom for the Reagan administration was the admission, after the president's 1984 reelection, that the superdollar had compounded the problem of restoring U.S. economic competitiveness. In coordination with its chief trading partners, the United States hammered together the Plaza Agreement in September 1985, bringing heavy pressure on an already declining dollar. The administration also began to pursue section 301 market access trade cases to open markets abroad.

The rhetoric changed after the president's reelection. "Fair trade" replaced "free trade" and became the cloak of new forms of import protection for other industries. But whereas the trade statutes that are on the books were eschewed before the 1984 election, the administration stretched its mandate—once again undermining the rule-oriented system—by self-initiating or reopening previously closed investigations (of allegedly dumped semiconductors and subsidized lumber) when political pressure to do so mounted.

By that time, however, Congress had lost its confidence in the administration's ability to handle trade policy. The result was the

Omnibus Trade and Competitive Act of 1988, the first congressionally initiated major trade bill since the Smoot-Hawley Act a half century earlier.

Many provisions of the new law were meant to prod the administration into taking a more assertive trade posture, particularly in opening foreign markets to U.S. exports of goods and services. For example, to force the administration to use its section 301 authority, Congress restricted (but not absolutely) the president's freedom *not* to retaliate if a negotiation with a foreign trading partner breaks down. Furthermore, Congress took from the president the job of deciding when and how to act on section 301 petitions and gave it to the U.S. Trade Representative.

Several other provisions of the 1988 act also reflected Congress's desire to encourage long-term adjustment and to establish a more formal process for seeking exchange rate stability. For example, the president was required to seek negotiations with other countries to better coordinate macroeconomic policies, reduce trade imbalances, and stabilize exchange rates. In addition, the Treasury Secretary was required to identify periodically any countries that manipulate their currency's exchange rate relative to the dollar and to seek bilateral agreements to eliminate these unfair advantages. Moreover, a Competitiveness Policy Council consisting of representatives from business, labor, government, and academia was authorized to identify economic and social problems affecting U.S. competitiveness and recommend coordinated long-term strategies for dealing with these problems.

Even though the trade bill was a repudiation of the Reagan administration's trade policy, it was also, ironically, an unmistakable sign of Reagan's influence on U.S. trade policy in the 1980s. In

Reagan administration trade policies during the 1980s were costly both in terms of results and in terms of processes. The Reagan team's neglect of existing trade laws and rules has saddled the United States with a political, economic, diplomatic, and legal legacy that future administrations and Congresses must dismantle.

passing the bill, Congress took up the Reagan team's explanation for America's trade problems—namely, “unfairness”—and its solutions—namely, heavy reliance on protection.

Legacies of the Reagan Era

By the time President Bush took office, U.S. industries were convinced that political muscle was the trade tool of choice at both ends of Pennsylvania Avenue. By granting import relief in ways that exceeded its legal mandate or skirted conventional import regulatory practice, the White House had legitimized efforts to use politics—not necessarily economic merit or legal criteria on “injury” or “unfair competition”—and opened the door wider for special interest pleading to replace national interest as the basis for making U.S. trade policy.

But, although the costs to the nation's consumers had risen as a result of the protection offered to politically powerful industries, the industries themselves had not necessarily been able to regain a competitive edge. Protected producers had been able to increase profits or even market share in the short term, but had not made the necessary longer-term adjustments. The voluntary restraints on automobiles actually intensified the competitive challenge to the Big Three U.S. automakers by accelerating the foreign direct investment of Japanese manufacturers in the United States. The Big Three have continued to lose market share to Japanese nameplates (imported as well as made in the United States). Japan's share of the U.S. car and truck market increased from 21.2 percent in 1980 (when the petition was filed) to 23.4 percent in 1990. As the Japanese automobile voluntary restraint agreements tapered off, the industry returned to Washington this summer for antidumping relief on minivans.

The consequences of the steel voluntary restraint agreements were similar. In 1988 steel industry profits were high and the mills were running at full capacity. Average steel prices, however, had increased as much as 40 percent since 1985, thus penalizing and jeopardizing the customer base on which the steel industry relies. Steel-using manufacturers such as makers of appliances, machinery, metal products, and transportation equipment experienced significant VRA-induced shortages that disrupted their production schedules. As soaring steel costs ate at their profits, the ability of these steel users to modernize and export were stifled. According to a study by the Center for the Study of American Business, the voluntary restraints on steel saved 17,000 steel jobs but cost 52,400 in other industries. The Reagan administration had abdicated its chance to insist on fundamental changes necessary to equip U.S. industry to compete by improving performance. And it had further undermined American competitiveness and led to lost sales in domestic and international markets.

By appearing to give low priority to trade regulation—particularly in its first term—and giving short shrift to trade remedies and adjustment that the law provided, the Reagan administration had set into play a movement among restive casualties of its 1980s economic policies to dismiss the legal framework for dealing with import competition—particularly section 201—or at the most to use it to set the stage for a political assault on the White House.

The crescendo of Reagan administration claims of “unfair” trade to justify market intervention in cases where no unfair trade had been demonstrated had also confused official and public thinking about the purpose of the trade laws. The general public had come to believe that the biggest U.S. trade problem was the unfairness of our trading partners. In fact, despite hundreds of claims of “unfairness” from U.S. industry in the 1980s, only a tiny fraction of U.S. imports is affected by antidumping and countervailing duty investigations. The precise figures for the past several

years are two-tenths of 1 percent of imports during 1987, four-tenths of 1 percent during 1988, and two-tenths of 1 percent during 1989.

The public had also been given the false impression that protection, especially against unfairly traded goods, will solve a given industry's problems. In fact, often an industry's most important problems are not unfair competition and may not even be overseas competition, whether fair or not. The source of the industry's problem may very well be internal or exacerbated by government rules and policies that have unintended consequences for industry. Import problems, therefore, may be more symptoms than causes of an industry's lack of competitiveness.

Looking Ahead

Reagan administration trade policies during the 1980s were costly both in terms of results—consumer costs and lost opportunities for responding to increasing international competition—and in terms of processes. The politicization of trade policy and the retreat to unilateral protectionism diminished intellectual support for the rule-based multilateral system. The Reagan team's neglect of existing trade laws and rules has saddled the United States with a political, economic, diplomatic, and legal legacy that future administrations and Congresses must dismantle.

What will be the impact of that legacy over the next few years? Political pressures for protection tend to flourish under certain conditions. During presidential campaigns, candidates are particularly anxious to please special interests. When the trade deficit increases, so do sectoral calls for protection against foreign competition. When unemployment is on the rise, that too brings cries for relief. Unemployment has risen to 7 percent, and the United States is entering the 1992 presidential sweepstakes. And although the trade deficit has fallen from \$152 billion in 1987 to about \$75–\$85 billion in 1991, it is projected to hit triple digits again in 1992.

This past year the United States confronted the recession that it had avoided for nearly eight years. And now the timing and characteristics of a recovery preoccupy the nation. The best way out of the recession is through a strong surge of exports. An export-led strategy for recovery has the added virtue of improving America's trade deficit. But the feasibility of rekindling the U.S. export boom that began in 1987 and is now slowing depends a great deal on the dollar's value and the relative growth rates in the major export markets of Europe and Japan. Unfortunately, the dollar's value has increased 20 percent since January, and other major economies are slowing too. As long as the dollar does not climb too high and U.S. exports stay price competitive, and as long as Japan and Europe grow briskly and are receptive to American goods, this strategy can work.

If the export-led growth strategy fails, George Bush will face reelection in a recessionary—or weak recovery—environment with unemployment high, if not rising, and the trade deficit projected to grow.

Bush, the internationalist, could use a debate on approval of the Uruguay Round of GATT trade talks to begin to reverse the Reagan legacy. He could channel protectionist pressure into a multilateral trade treaty that would open markets abroad. That would give him the opportunity to paint any Democratic opposition to the Uruguay Round—should it develop—as the economic equivalent of opposition to use of military force in the Gulf war.

In the end, Bush, like every president before him, has the power to channel congressional concern and ultimately shape America's trade policy. The question is not one of political power, but of political will. ■

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The Enterprise for the Americas Initiative

A Development Strategy for Latin America?

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On June 27, 1990, the Bush administration announced the Enterprise for the Americas Initiative, the first comprehensive policy agenda for the entire Latin American region since President Kennedy's ambitious Alliance for Progress. In contrast to the Alliance, which relied primarily on U.S. aid, the Initiative depends on strategies that reflect the budgetary constraints of the 1990s. Its three principal aims are to create a free trade zone in the Americas, to stimulate foreign investment in the region, and to reduce or cancel some \$12 billion in U.S. government loans.

Late in February the president presented legislative proposals that would begin to implement the latter two goals—increasing investment and reducing debt. For some Latin American nations the president's proposals offer real hope for growth and development. Yet for others the conditions necessary to participate in the initiatives the president is proposing are impossible to meet for the foreseeable future.

Although the Initiative has many constructive elements, it is simply too limited in its aims to serve as a comprehensive policy toward the region. As it is now structured, it will leave behind the poorest and most unstable countries of Latin America, with negative economic and political consequences for the region as a whole. If the Initiative is to succeed as a region-wide stimulus to economic progress, it must be made flexible enough to incorporate all the countries of Latin America, and provision must be made for other forms of assistance above and beyond the Initiative.

The February 1991 Proposals

Three proposals are at the heart of the legislation presented by the president in February. First, the president proposes to contribute \$100 million a year for five years to the Initiative's multilateral investment fund to be administered by the Inter-American Development Bank. The money would go for grants to fund specific, market-oriented investment policy initiatives, such as reform of domestic capital markets, undertaken by governments of the region.

The president also plans to establish a special Initiative facility within the Treasury Department to administer the reduction of foreign debt owed to official creditors (as opposed to commercial banks). To be eligible for debt-reduction benefits, a country must have—or, in exceptional circumstances, must have made significant progress toward—a standby arrangement with the International Monetary Fund to enable it to receive temporary emergency credit. A country must also have negotiated a World Bank structural adjustment loan to make specific reforms. It must also have made major investment reforms in conjunction with an Inter-American Development Bank loan or be making progress toward an open investment regime, and, if appropriate, have agreed with its commercial bank lenders on a satisfactory financing program. Eligibility is determined by the president.

For countries eligible for benefits under the Treasury Department facility, the president proposes to reduce debt owed to the United States under the 1961

Foreign Assistance Act, complementing the existing provision for reduction of debts incurred through the Food for Peace program.

In addition, the administration is seeking authority to reduce a portion of assets held by the Commodity Credit Corporation as a result of its credit guarantee facilities and a portion of Eximbank loans to facilitate novel debt-for-equity swaps—in particular, debt for nature and debt for development—in eligible countries. The swaps would entail a foreign creditor forgiving debt in return for “equity” in, say, a newly protected forest or a development project.

The Road to Reform So Far

Latin American nations are in varying stages of the reform process, with their progress often determined by the extent to which they have played by orthodox economic rules in recent years, as well as by the level of development at which they enter the process. Some countries—notably Chile, Mexico, Venezuela, and Costa Rica—have made radical changes in the structure of their economies. They have eliminated subsidies and price controls, repaid and restructured foreign debts, dismantled inefficient state sectors and privatized major industries, and reformed tax, tariff, and labor market structures. The flow of revenues to foreign creditors has been significant, and the social and political costs have often been high. The countries that have paid that price now have relatively stable economies. They are well positioned to participate in the programs of the Initiative, and they are rightly being rewarded for their efforts. They are also ready to compete as equal partners in the free trade framework that the Initiative envisions.

Other countries—Argentina, Brazil, Ecuador, and Peru, for example—are further behind in the reform process and may not be able to qualify for the benefits of the programs the president has proposed. These countries experimented, in varying degrees, with heterodox economic policies in the 1980s. They resorted to price and wage controls, adopted multi-tiered exchange rates, expanded state sectors, and unilaterally reduced or suspended interest payments to foreign creditors. In almost every case the policies eventually resulted in unsustainable hyperinflation, and governments were forced to attempt a return to orthodoxy and a rapprochement with foreign creditors.

Undertaking structural economic reform usually requires challenging entrenched political interests, such as organized labor, state sector workers, and protected industrialists, in addition to undertaking generally unpopular measures such as lifting food subsidies. Yet all the countries in the second category are fragile new democracies, for whom such political obstacles to reform are formidable. The first set of countries, by contrast, underwent the reform process under authoritarian or semi-authoritarian auspices (Chile and Mexico) or already had well-established democratic traditions (Costa Rica and Venezuela). The reform record of the recently constituted democracies has been mixed at best, and the result has often been unstable governing coalitions caught between a state economy and a market economy. These nations must make sub-

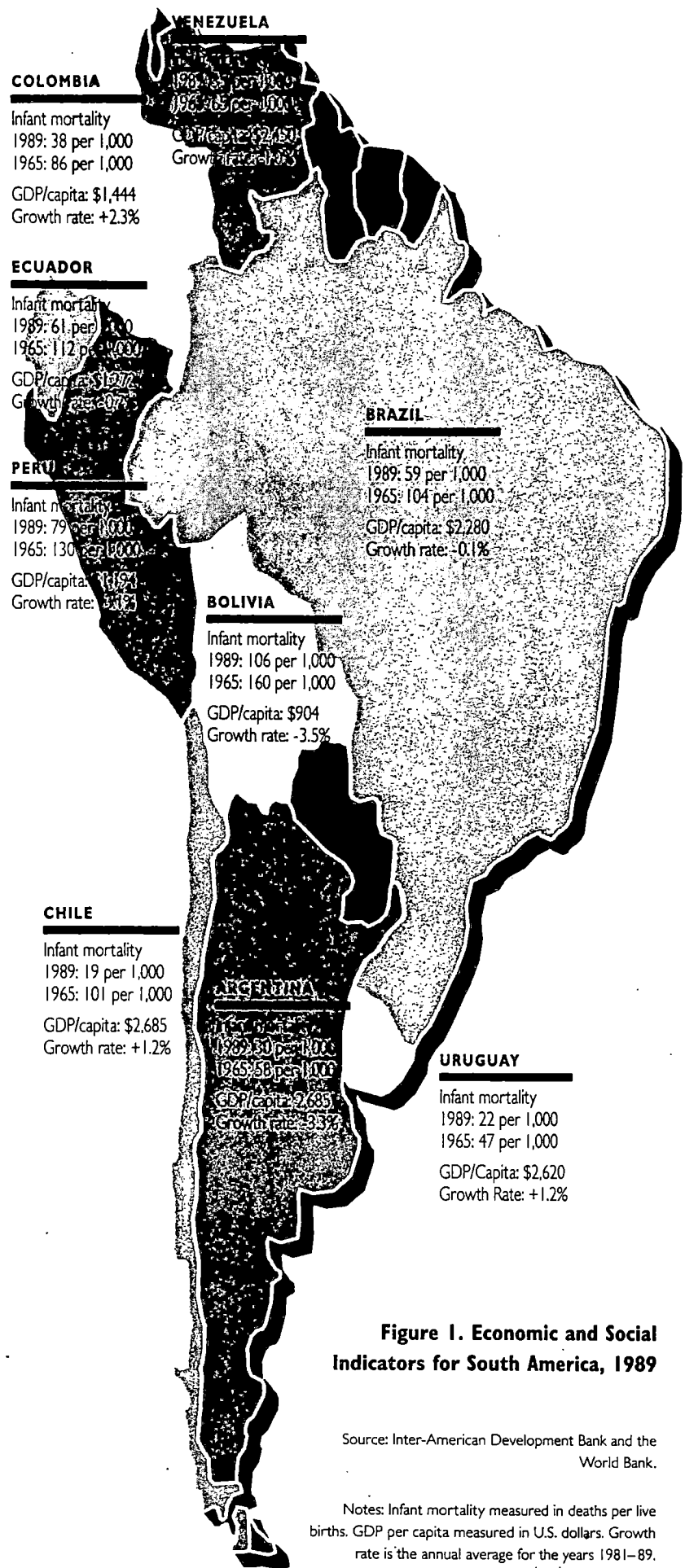


Figure 1. Economic and Social Indicators for South America, 1989

Source: Inter-American Development Bank and the World Bank.

Notes: Infant mortality measured in deaths per live births. GDP per capita measured in U.S. dollars. Growth rate is the annual average for the years 1981-89.

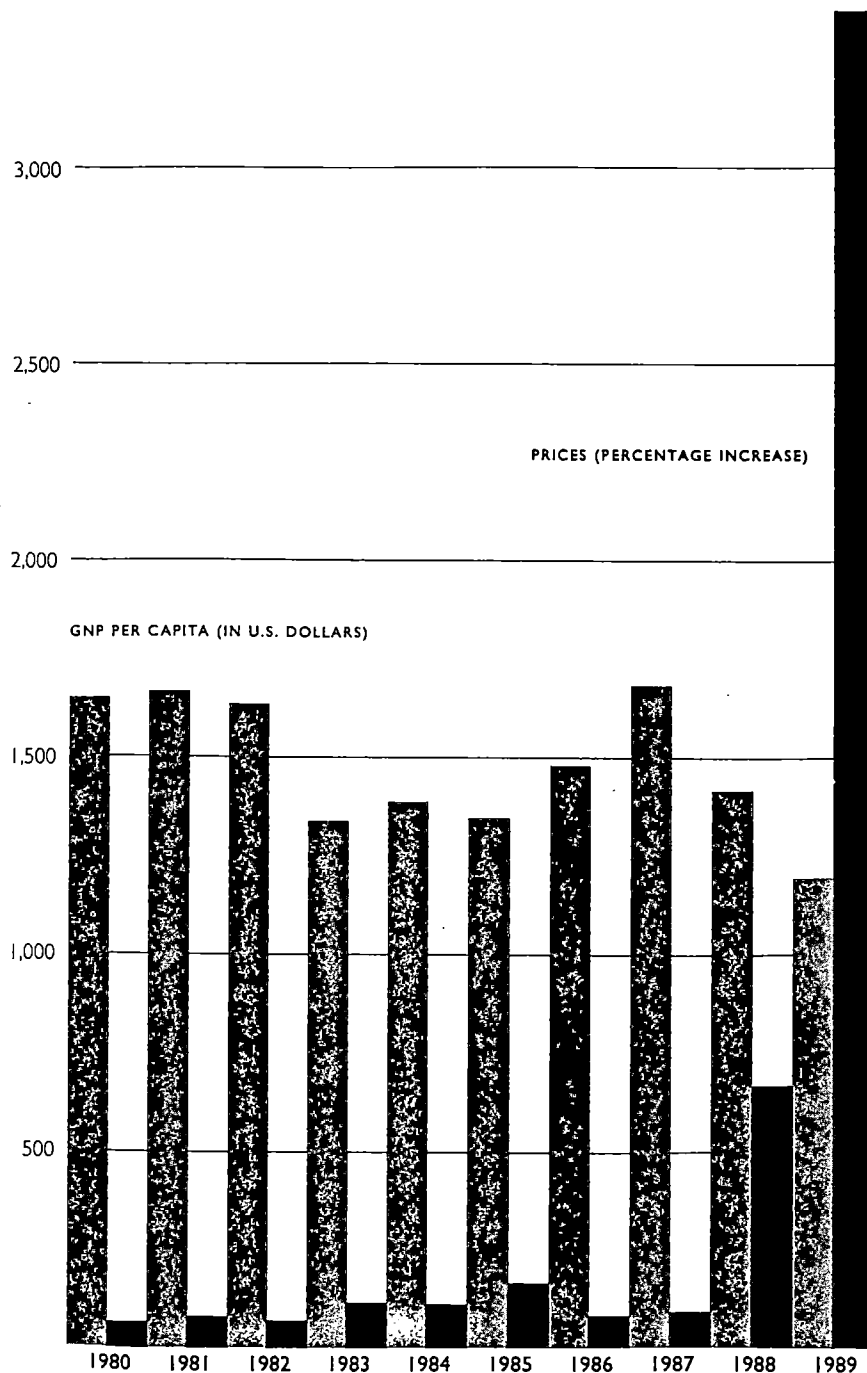


Figure 2. Comparison of GNP per Capita and Prices in Peru, 1980-89

Sources: Inter-American Development Bank and the World Bank.

stantial progress before they are ready to reap the benefits of the Initiative. Some require outside aid to buy time for the internal reforms to produce positive results. Without such aid, for which the Initiative makes no provision, their social and political situations will become unsustainable before the reform process can yield benefits.

A review of the contrasting cases of Chile and Peru illustrates the imperative for flexibility in U.S. policy toward its Latin neighbors.

Chile's Record of Economic Success

Often noted as Latin America's star economic performer, Chile has made the most progress in implementing trade and market-oriented reforms. Its steady growth and low inflation rates in recent years are rare on the Latin continent. Chile is seen as the next candidate after Mexico for a free trade agreement with the United States. It is so far ahead of its neighbors in its structural adjustment that it has little incentive to join the new Southern Cone free market area, Mercosur, or to negotiate free trade with the United States under Mercosur auspices.

Chile has a big stake in success through the Enterprise for the Americas Initiative. The political consensus behind Chile's economic strategy is unusual among Latin American polities. The country has put behind it the discordant years under General Pinochet, who accomplished the nation's far-reaching reform by exacting economic sacrifice through political repression. The transition to democracy with the election of Patricio Aylwin in December of 1989 opened the door to pent-up demand for social welfare spending. Despite relatively good social welfare indicators (Chile's infant mortality rate is the lowest on the continent), income distribution remains highly skewed. In 1989 the wealthiest fifth of the population held 59 percent of total income, while the poorest fifth had 3.5 percent. Yet fiscal balance remains the pillar of Chile's economic stability. In 1990 the new government slightly increased the tax on business profits to create a resource base for increased social spending. Continued growth will thus be essential to fund that base.

Chile relies increasingly on foreign trade for economic growth. Exports accounted for 30 percent of gross domestic product in 1990 and are projected to grow to 34 percent by 1994. The nation's vulnerability to protectionism became particularly clear during the U.S. boycott of Chilean fruit in March 1989 after the discovery of two poisoned grapes. The boycott cost Chile some \$300 million in lost revenues, about 5 percent of total annual export revenues. Understandably, U.S. and European Economic Community tendencies toward protectionism worry Chile, and a free trade agreement with the United States is a top priority. A failure in free trade negotiations with the United States could endanger Chile's new democracy, eroding the existing consensus and playing into the hands of extremists on both sides of the political spectrum. Chile does not need—nor is it asking for—aid. It requires only equal treatment as a trading partner.

Within the Initiative, Chile stands to benefit the

most from the proposed free trade framework. The Initiative's debt reduction provisions have limited relevance, for Chile has serviced its debt without interruption and without special treatment or reduction for years. Chile has only \$60 million in debts in the Foreign Assistance Act category that President Bush wants to make eligible for reduction, a very small amount relative to Chile's total debt of more than \$18 billion. In the investment arena, the new Treasury facility may serve Chile well, as Chile's relatively strong economic position limits its access to concessional multilateral credit (credit on favorable, below-market-rate terms). Although Chile attracts substantial foreign investment, the government needs additional funds—which it presumably could get through the Treasury facility—to improve the country's underdeveloped domestic capital markets.

The United States also has a big stake in Chile's successful participation in the Initiative. If Chile, the model performer in Latin America, cannot benefit from the Initiative, poor performers will have no incentive to reform. The Bush administration demonstrated its recognition of this fact by signing, on the first anniversary of the Initiative, an agreement to reduce Chile's \$39 million Food for Peace debt by \$16 million. While the move had symbolic importance, it is of little significance in light of Chile's total debt.

The key issue for Chile within the Initiative remains free trade with the United States. Yet a free trade agreement could be more than two years in coming, as the administration is currently preoccupied with negotiating with Mexico. Many Latin nations attribute the possibility of a U.S.-Mexican free trade agreement to Mexico's proximity to the United States. An agreement between the United States and Chile would do much to convince them that free trade agreements with the United States are possible for all Latin countries who make the necessary reforms. The failure of such an agreement could lead to support for extremist politicians in nations such as Brazil and Argentina, where the reform process is in its most difficult stages. The successful negotiation of Initiative provisions with Chile is an important first step toward realizing the overall objectives of the Initiative and is critical to its region-wide implementation, as well as to U.S. economic and political interests in the region.

Can Peru Make It Back?

Peru is the most extreme case of an economy that did not play by the rules in the 1980s. Alan Garcia's populist economic strategies ultimately led to economic chaos and collapse: a 20 percent drop in gross domestic product in 1988-89, the second longest hyperinflation in world history, a 50 percent drop in real wages, and an underemployment rate of 75 percent. By 1990 the state had virtually ceased to function. Public sector workers were not even paid for the last two months of the Garcia government. Peru's tax base for state expenditure was 7 percent of GDP in 1990, equivalent to that of the poorest of developing countries, Uganda and Bangladesh (France's tax base, by contrast, is 41 percent of GDP, and the United Kingdom's is 36 percent). Garcia's hostility to the International Monetary

Fund and his strategy of unilaterally limiting Peru's debt payments gave his country the dubious distinction of being Latin America's worst debtor. Peru is also the world's largest producer of coca leaf, an occupation to which its citizens have turned increasingly in the absence of other opportunities. Despite the fall in the price of cocaine on world markets, the number of peasants involved in coca-growing activities has increased to hundreds of thousands.

Economic deterioration, social upheaval, and criminal and political violence threaten the country's democratic system and even its civil society. The insurgent activities of the Maoist, Khmer Rouge-like Shining Path guerrilla movement in the context of fragile democratic institutions have led to spiraling violence and unrestrained human rights abuses. More than twenty thousand people have died since Shining Path launched its activities in 1980, and Peru ranks number one in the world in the number of disappearances. Lack of resources, an underdeveloped judicial system, and the overwhelming challenge from guerrilla movements, paramilitary groups, and criminal violence have led to the military's having de facto control over the large portions of the country under emergency rule. In the drug-producing regions of the country, meanwhile, the Shining Path has a strong following because it serves as a protector of sorts for the local coca-growing population, guaranteeing that they are paid a fair price by the drug traffickers.

Peru's crisis has economic and strategic implications for the entire region, as well as for the success of the Initiative. The costs of the nation's economic deterioration have risen beyond the inconvenience of illegal immigration and contraband trade at neighboring borders. The cholera epidemic that broke out in Peru in February has spread to Colombia, Ecuador, Chile, and Brazil. The disease is likely to become endemic in poor areas in many of these countries. Members of Peru's various insurrectionary movements, meanwhile, have committed violent acts or been captured in Bolivia, Ecuador, and Colombia.

Initiating Reform

Soon after taking power in July of last year, the government of Alberto Fujimori made a commitment to reverse Peru's economic deterioration and repair its relations with the international financial community. It launched a draconian austerity plan to stabilize hyperinflation and build up sufficient revenues for the government to operate. Monthly inflation fell from 400 percent to about 10 percent. Subsequently the Fujimori government has embarked on an impressive series of structural reforms. It has lowered and reduced the number of tariffs, eliminated most subsidies and nontariff trade barriers, and is attempting to implement tax reform. It has also reformed a restrictive labor code that had made it virtually impossible to fire workers and thus discouraged hiring. Finally, it has provided incentives for early retirement for public sector workers. It also plans to privatize several state industries and has begun by putting the nationally owned airline up for sale. Indeed, almost overnight, Peru has become a perfect example of orthodox economic policy reform

and is implementing changes at a pace that is unprecedented on the continent.

Yet the reforms are costly. Eliminating subsidies and price controls raised the price of food an average of 500 percent and increased the price of gasoline 3,000 percent. These price changes were calamitous for most Peruvians, particularly the poor. Overnight the number of people living in extreme poverty—that is, without enough income to meet basic food needs—rose from 7 million to 12 million, slightly over half of Peru's population. Per capita GDP now stands at 1960 levels. Stories of babies dying of malnutrition at home because their mothers cannot afford the bus fare to the clinic are common in Lima's slums. The infant mortality rate in Peru is 79 deaths per thousand live births and is on the rise. In neighboring Chile it is 19 per thousand; in Colombia it is 38. Unemployment, meanwhile, is growing as small businesses face extreme recession on the one hand and the removal of subsidies and the introduction of unrestricted foreign competition on the other. The most recent statistics for Lima found that only 9 percent of its economically active population was adequately employed. Although the government has promised to implement a social emergency program to provide food and temporary work, it has yet to do so, largely because of a lack of resources.

Rejoining the international financial community also has its costs. Peru is seeking a \$1.3 billion loan from a support group of friendly countries in order to keep current on its payments to external creditors and gradually to clear its arrears with the IMF and the World Bank. Even if it is able to obtain the full loan, it will still have to pay out an additional \$600 million in domestically generated resources. Its current *monthly* payments of \$60 million to the IMF and World Bank are more than the government has spent in its whole tenure in office on the desperately needed emergency social program. The payment of arrears is the necessary bitter medicine for reestablishing financial credibility. Yet with economic conditions as they are, the government cannot raise the revenues it needs at home, much less those to send abroad.

Cholera's Heavy Toll

The cholera epidemic has added a formidable and unexpected obstacle to the prospects of economic recovery through free trade. The epidemic has had disastrous effects on Peru's two key foreign exchange earners, tourism and fisheries. The major tourist agencies reported a 50 percent drop in sales two months after the epidemic broke out. Estimates of lost tourist revenue for 1991 are \$8 million. Peru earns an average monthly income of \$38 million from fisheries exports. In February alone, losses were estimated at \$13 million. Sales of restaurants and street vendors have also dropped dramatically, in the process weakening an important part of the informal economy that acts as a social security of sorts for those unable to find steady jobs.

Human costs of the epidemic are also enormous. To date almost 200,000 cases of cholera have been reported in Peru. More than 1,500 people have died.

Cholera, which is spread by contaminated water and seafood, is essentially a poor man's disease. Although it is easily treatable with antibiotics and oral rehydration, it can be fatal in as little as four hours without medical attention. For most of Peru's poor, adequate medical care is hard to come by. It is virtually nonexistent in some of the more remote shantytowns or rural regions. Peru's water treatment and sewage infrastructure is so bad that even if medical care were available, it would take several years to extend services to most poor areas. With a population of 7 million, Lima has infrastructure for fewer than 3 million people.

Roadblocks to Success

Even if Peru continues its valiant efforts to restore economic order and implement an orthodox economic strategy, the obstacles are enormous. For any economic strategy to succeed, some semblance of social order and political stability is necessary. Neither exists today. Attaining them requires immediate attention to sorely neglected basic social welfare issues and to reform of severely underdeveloped and overburdened judicial institutions. The efforts will require financial resources that are clearly not available in Peru. Foreign aid must provide both the resources and the technical support to fight the cholera epidemic and to begin to restore and develop the nation's social welfare infrastructure. Foreign aid is also necessary to provide food and temporary employment until the economy has time to recover. A particular focus of such a program should be unemployed youth, who are the principal targets of insurgent groups such as Shining Path.

Foreign aid is obviously not the sole answer. Peru's problems, first and foremost, must be solved at home. Yet resources from abroad are critical. Peru's turn to a free market strategy could make it a participant in the Initiative in the long run, but for now the obstacles are too great. Support for Peru, at least for the near future, must come from outside the Initiative, as well as within it if and when possible.

Peru, however, cannot now meet the conditions demanded by the Initiative. It has neither a standby agreement with the IMF nor structural adjustment loans from the World Bank. It has not rescheduled its private bank debts. After almost 12 months of negotiations, the proposed bridge loan to cover its arrears to the IMF has yet to materialize fully. The process of clearing arrears with the World Bank is also yet to be resolved. At the very earliest, new lending could begin at some point in 1992. An agreement with private creditors will be much longer in coming. In addition, any kind of debt-for-equity swap such as proposed by the Initiative has limited relevance for Peru, whose debt has a market value of as little as 4 cents to the dollar. Where Peru stands to gain the most from the Initiative is from forgiveness or reduction of Foreign Assistance Act and Food for Peace debts, as arrears alone on these two forms of debt are \$54 million and \$30.8 million, respectively. Yet progress on this front is hindered by Peru's failure to meet the other requirements, and, unless they are waived, Peru will have little to gain from the Initiative.

Complicating all proposed aid to Peru is the issue

of drugs. No financial aid from the United States or any multilateral institution in which the United States has a veto vote can go to Peru until the United States and Peru sign an agreement to cooperate on drugs. While an agreement in principle was signed on May 15, annexes are still being negotiated on several sticking points. One is coca eradication. For the Peruvians, providing alternative employment to growers comes first. For the United States, eradication and interdiction come first. Peru also puts a higher priority on curbing the growth of Shining Path than on fighting the drug trade. Peru fears that using its military, and possibly U.S. personnel, to eradicate coca runs the risk of turning hundreds of thousands of displaced farmers into supporters of Shining Path. Quite justifiably, the resource-strapped Peruvians see the cocaine problem as generated by U.S. demand for drugs. Although the drug cooperation agreement will probably be signed some time in the near future, the negotiations have dragged on almost six months, stalling valuable aid efforts. Other potential donors, such as the Japanese, are waiting for the U.S. "go ahead." Although the U.S. Agency for International Development has approved some \$100 million in food aid to Peru for 1991, it is unable to initiate any new projects or disburse money until the agreement is completed.

The extremity and severity of the Peruvian case dictates commitment from the highest levels of the U.S. government that goes well beyond our current approach. Peru can and will make progress on the cocaine production front—just as it is doing on the economic reform front—only when it can meet the most basic needs of its people. It can do so only with substantial aid from abroad. If the situation continues to deteriorate, it will affect the entire region's economic and strategic interests and the Initiative as a whole. As the cholera epidemic shows all too well, Peru's troubles cannot be confined within its borders.

The Initiative and Beyond

The Enterprise for the Americas Initiative is clearly correct in its strategy of rewarding good performers such as Chile, and it should follow through on its promises to do so. Yet the Initiative cannot be a comprehensive development policy for the region. Although Peru's case is extreme, other countries, such as Bolivia, Ecuador, and Brazil, are also attempting to make structural economic reforms in the face of severe poverty and political instability. They must be encouraged to develop not only the trade and investment reforms proposed by the Initiative, but also sorely needed reforms in health, education, and basic service infrastructure. The poorest countries, Peru, Ecuador, and Bolivia, will need foreign aid above and beyond debt reduction to do so. Progress on both fronts will go a long way toward building a stronger base, both economic and political, for structural economic reform. Without such progress, these countries will not be able, for the foreseeable future, to compete as equal trading partners and will be relegated to a marginal status. If that happens, and if their economic and political health continues to fail, the entire region could pay a heavy price. ■

The Enterprise for the Americas Initiative is clearly correct in its strategy of rewarding good performers, and it should follow through on its promises to do so. Yet the Initiative cannot be a comprehensive development policy for the region.

BROOKINGS

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WHO RUNS OUR
CORPORATIONS?

CURRENT GROWTH IN LATIN AMERICA

DOES PRISON PAY?

GAY: BACK ON TRACK FOR NOW

WILL QUEBEC SECEDE?

A CLOSE CALL FOR FREE TRADE

American Business Returns to the GATT Fold

BILL FRENZEL

Last December the unthinkable happened. Negotiations on the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) broke down. After four years of talks, trade ministers from the world's leading trading countries had been unable to come to agreement.

Agriculture was the main sticking point. The European Community had refused to accept more than token reductions in agricultural subsidies and barriers. There were other unresolved problems besides agriculture, but they were secondary. Anyway, it was the failure, not the reasons, that stunned the world. GATT rounds are not supposed to fail.

The Uruguay Round was intended to be the eighth consecutive liberalizing round since the GATT was founded in 1948. Its failure was considered unacceptable, even by the European Community, on whose intransigence it foundered. So the painstaking work of restarting the negotiations began as soon as possible. It was obvious, however, that a resolution that had eluded negotiators for four years was not going to be found swiftly. A quick fix was neither possible nor desirable.

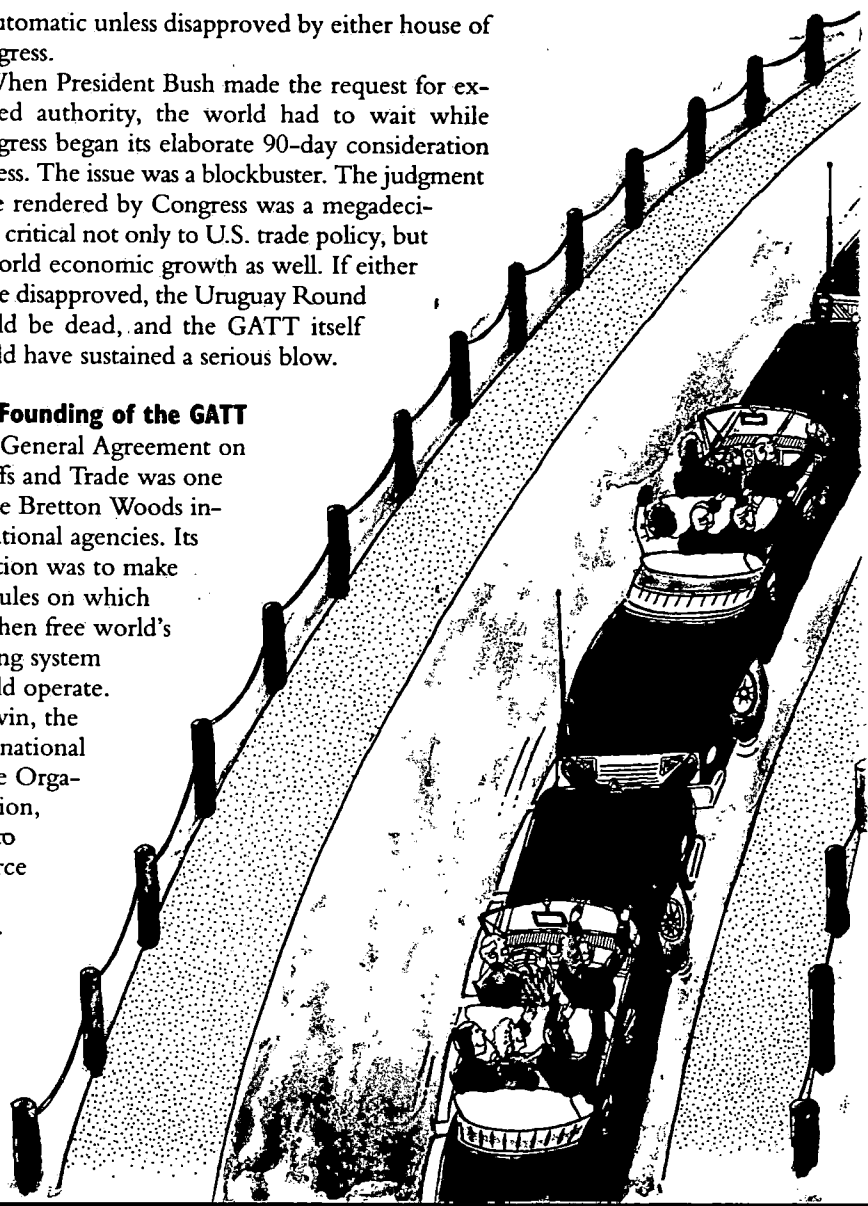
The world's trade ministers and their governments were keenly aware that U.S. negotiating authority would expire at the end of March. Under the U.S. Constitution, Congress controls trade policy. In practice, it is more of a ratifier than an initiator. In recent years it has given the president specific authority, limited in time, called the "fast track," to negotiate and to present the results to Congress for ratification in unamendable form. The Trade Act of 1988 that granted the expiring authority also contained a provision for extending it. At the president's request, a two-year extension would

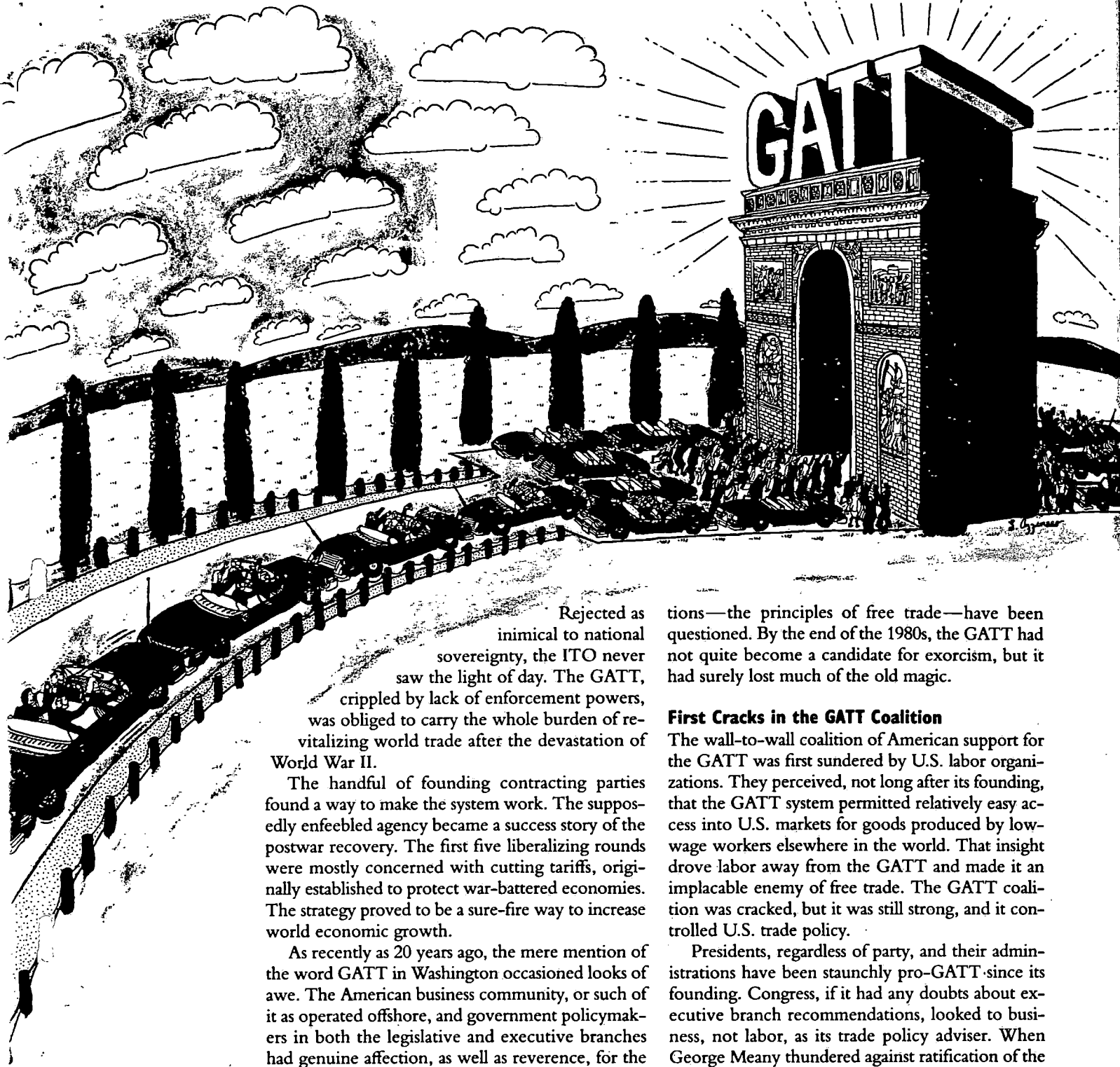
be automatic unless disapproved by either house of Congress.

When President Bush made the request for extended authority, the world had to wait while Congress began its elaborate 90-day consideration process. The issue was a blockbuster. The judgment to be rendered by Congress was a megadecision, critical not only to U.S. trade policy, but to world economic growth as well. If either house disapproved, the Uruguay Round would be dead, and the GATT itself would have sustained a serious blow.

The Founding of the GATT

The General Agreement on Tariffs and Trade was one of the Bretton Woods international agencies. Its function was to make the rules on which the then free world's trading system would operate. Its twin, the International Trade Organization, was to enforce the rules.





Rejected as inimical to national sovereignty, the ITO never saw the light of day. The GATT, crippled by lack of enforcement powers, was obliged to carry the whole burden of revitalizing world trade after the devastation of World War II.

The handful of founding contracting parties found a way to make the system work. The supposedly enfeebled agency became a success story of the postwar recovery. The first five liberalizing rounds were mostly concerned with cutting tariffs, originally established to protect war-battered economies. The strategy proved to be a sure-fire way to increase world economic growth.

As recently as 20 years ago, the mere mention of the word GATT in Washington occasioned looks of awe. The American business community, or such of it as operated offshore, and government policymakers in both the legislative and executive branches had genuine affection, as well as reverence, for the free world's trading system.

And why not? The General Agreement was our baby, a creature of American postwar economic policy. Based on the principles of the Reciprocal Trade Act of 1934, it was the symbol of free trade. Especially when compared with the managed trade policies of the nonmarket economies, it seemed the very best example of the free world's economic promise. Whatever its original flaws, the United States and the world had good reason to like it: it worked.

Over the past two decades, however, the GATT's reputation, its effectiveness, and even its credibility have eroded. The GATT's very founda-

tions—the principles of free trade—have been questioned. By the end of the 1980s, the GATT had not quite become a candidate for exorcism, but it had surely lost much of the old magic.

First Cracks in the GATT Coalition

The wall-to-wall coalition of American support for the GATT was first sundered by U.S. labor organizations. They perceived, not long after its founding, that the GATT system permitted relatively easy access into U.S. markets for goods produced by low-wage workers elsewhere in the world. That insight drove labor away from the GATT and made it an implacable enemy of free trade. The GATT coalition was cracked, but it was still strong, and it controlled U.S. trade policy.

Presidents, regardless of party, and their administrations have been staunchly pro-GATT since its founding. Congress, if it had any doubts about executive branch recommendations, looked to business, not labor, as its trade policy adviser. When George Meany thundered against ratification of the Kennedy Round in 1974, Congress listened politely, but did not heed his advice. Instead, it followed the counsel of the U.S. business community and the U.S. Trade Representative, Ambassador Bill Eberle. Ratification was not all smooth sailing, but ultimately the negotiations were approved by large congressional majorities.

Again in 1979, when the Tokyo Round was pending in Congress, labor was a vigorous opponent, working against Ambassador Bob Strauss, then U.S. Trade Representative. Even so, the issue was never in doubt. The business community delivered strong support, and Congress responded with strong majorities in favor of the agreement.

Bill Frenzel, a Brookings guest scholar, retired from the U.S. House of Representatives in 1990 after representing Minnesota for 20 years. He served on the Ways and Means Committee, where he specialized in trade and tax issues.

Protectionism has a timeless, addictive appeal . . .

More severe blows against the free trade coalition and the GATT were the early, and sometimes successful, bids by major industries for special domestic protection. The textile industry, heavily protected by high tariffs since the birth of the republic, was able to force other protections, including the 1974 Multi-Fiber Agreement. Steel and autos were successful in the late 1970s and early 1980s, respectively, with trigger-price mechanisms and voluntary restraint agreements.

All these mechanisms were theoretically voluntary, and each administration that negotiated them alleged that they conformed to the GATT. They may have been politically necessary to prevent worse protectionism, but they carved great holes in the normal discipline of the GATT. In addition, their success, although often partial, made the system more vulnerable to subsequent attacks from other interests seeking trade relief.

By the 1980s business protectionism was no longer an isolated phenomenon. Machine tools, auto parts, agricultural producers, and even high-technology groups had joined the parade toward more vigorous U.S. unilateral protection. Like their predecessors in textiles, steel, and autos, these groups perceived themselves as abused victims of unfair trade tactics. They believed the GATT and their government had failed them.

Their battle cry was "fair trade"; their symbol, the uneven playing field. Alleging unfair practices by trading partners, most often Japan, the protesters continued battering the GATT, usually without even mentioning it. In fact, most efforts to avoid the normal strictures of the GATT by making U.S. law more protectionist were not successful. But each weakened the GATT support level a little more, and each encouraged another future claimant to become a little bolder in seeking relief outside the GATT.

Cumulatively, these efforts convinced Congress and the nation to begin to believe that U.S. trade policies had been naive and that the United States needed a more aggressive trade policy. The uneven playing field had become an imposing symbol. The GATT was not failing, but its flaws were becoming more evident.

No wonder American industries were complaining. The 1980s was a period of unrelenting disaster for U.S. trade. Everything went wrong. Exchange rates were ruinous. Debt problems destroyed our traditional hemispheric markets. The U.S. fiscal deficit skyrocketed. Our economy went on a spending binge. Domestic producers experienced unrelieved miseries. None of these problems was within the reach of the GATT, but the free trading system of the world was taking the heat.

The Trade Acts of 1984 and 1988

Business people who had worshipped at the altar of the GATT in its glory days became its sternest critics and demanded changes in U.S. trade laws. Real relief was not to be found until the end of the decade when the dollar weakened, but that did not diminish

congressional enthusiasm to try to change trade laws.

The Trade Act of 1984, developed well before the worst of the trade deficits, was Congress's first response to the business calls for relief. Both houses passed bills containing GATT violations, but when the two met to reconcile differing provisions, the anti-GATT language was removed thanks to the resourceful work of Ambassador Bill Brock, then U.S. Trade Representative. The administration had defended its trade policy and the GATT, but there was no doubt that the 1984 act was the harbinger of worse to come.

Congress began work on another, tougher trade bill the next year, 1985, although it took until 1988 to enact it. The four-year wait did nothing to improve Congress's disposition. In 1987 the trade deficit peaked at about \$170 billion. Japan's trade surplus with the United States that year was some \$70 billion. Business was hurting. Congress was itching for a fight. It was not at all afraid of violating the GATT, and it was ready to test the limits of the veto power of a lame duck president.

No amount of administration resourcefulness could keep the 1988 act free of protectionist provisions contrary to the GATT. Nevertheless, Ambassador Clayton Yeutter, U.S. Trade Representative, worked mightily and almost performed the miracle. Some of the traditional friends of free trade were working against him. Some others were not helping. Indeed, American business had little incentive, except for the vague hopes for the recently undertaken Uruguay Round, to help him.

Most GATT member states thought that the 1988 act was contrary to the General Agreement. Although Ambassador Yeutter succeeded in making changes so that a very clever and very strong future administration could administer the act without violating the GATT, the legislation put strong pressure on the administration to be more aggressive in its trade policy. In the hands of a protectionist administration, it could be very disruptive to the GATT system.

The Uruguay Round

When Ambassador Carla Hills, the current U.S. Trade Representative, began negotiating the Uruguay Round early in 1989, she was representing an ambivalent, cautious, and sophisticated business community. The painful lessons of the 1980s loomed large. The major business players were not going to project enthusiasm until every possible objective listed in the 1988 Trade Act had been won in the negotiations. Hills bargained with skill and caution, rejecting the last-minute EC offer of a mini-agreement just before the talks broke down. Without a comprehensive agreement, business would almost certainly advise against ratification.

With U.S. trade policy at the crossroad, Hills had to convince Congress that the traditional free trade-GATT course was best for the United States. When, at the end of March, the president made his request for extended negotiating authority, the outcome was in doubt. What 20 years ago would have

been a piece of cake was now nip and tuck. Conventional Washington wisdom said the odds favored disapproval.

Congress's Decision

By the time the president requested the extension, labor had already been at work in Congress for two months. It was well organized and committed. It had the early momentum, especially in the House of Representatives, the chosen battleground. It also chose to focus its opposition on the North American Free Trade Agreement, involving the United States, Canada, and Mexico, rather than the Uruguay Round, in the belief that it was easier to defeat.

Business, meanwhile, was waking up from the pessimism of the 1980s and finally noticing a two-year-long export boom. The December breakdown of the round had also gotten its attention. Instead of worrying about getting a little more out of the round, business was thinking now about getting nothing. That was an unpleasant prospect. Congress's favorite trade advisers were returning to the fold. They were not, and might never be again, the happy campers of the 1960s and 1970s, but neither were they the belly-achers of the 1980s. Business finally decided it wanted, or needed, Uruguay and NAFTA, and was willing to work for them.

In April, lobbying was intense. Labor, and its principal ally, textiles, focused on Mexico, its labor rates and conditions, and its environmental problems. An *ad hoc* House whip group organized by House Trade Subcommittee Chairman Sam Gibbons (D-Fla.) to support the president's request could count but 100 votes out of 435 when it met the first time.

Ambassador Hills, for the administration, spent most of her waking hours meeting with Congress. When the chairmen of the congressional committees of jurisdiction, Senator Lloyd Bentsen (D-Texas) and Congressman Dan Rostenkowski (D-Ill.) wrote to the president inquiring about controversial questions raised by opponents of NAFTA, she led the interagency group that produced the reply. That response, persuasively argued in person by Hills and Environmental Protection Agency Administrator Bill Riley, effectively laid to rest the environmental issue. Even Congress could understand we were unlikely to make Mexico cleaner by keeping it poor.

The votes came the last week in May. The motion to disapprove the president's request was defeated by a 40-vote margin in the House and even more handily in the Senate, which had never been a problem. No landslides these, but each represented a comfortable margin.

The 600-pound Gorilla

There is no reason to believe that the unpleasantness of the 1980s has been forgotten. New uneven playing fields will be discovered or invented. Protectionism has a timeless, addictive appeal. It may have peaked, or stabilized, but few would dare to make that prediction. So far, there have been no calls for repeal of the Trade Act of 1988.

American business has emerged from the fast track controversy as an even stronger player in U.S. trade policy. But it is not easy to deal with. It is the 600-pound gorilla. It cannot be taken for granted. It is not always going to be pro-GATT, especially in hard times. And it is not above seeking a little unfair advantage from time to time. Administrations in the future will have to be even more careful in dealing with business, even more assiduous in communicating on negotiations, and even more cooperative in framing the issues it takes to Congress.

New opportunities for business-government cooperation have opened, but they will not be easy to grasp. Because administrations typically give commercial values lower priority than geopolitical values, and because business typically takes a rather short-term, heterogeneous point of view, it will take big issues and big people to realize the big opportunities.

The Future

Now that the vote on negotiating authority has set the direction of U.S. trade policy for the 1990s, the first two opportunities, Uruguay and NAFTA, are self-evident. The latter, with three willing negotiators and strong business support, looks like a cinch. Because it is complicated, it will take time, but the issue is not in doubt. The former, the Uruguay Round, is an uphill battle. If the European Community remains adamant, there will be no agreement.

The other opportunities are less obvious. As the world lurches toward its now only dimly glimpsed "new order," a few things are clear. East-West confrontation will change, and intense global commercial competition will take its place on center stage. The United States, with its array of strong security forces, is well positioned for yesterday. For tomorrow, our position—defined by endless fiscal deficits, low saving rates, persistent trade deficits, a sick banking system, and a set of foreign policy disincentives against doing business abroad—is lousy. The closest business-government cooperation will be required to reposition our economy and amend our regulations to meet the international competition of the future.

Finally, even if the United States can become more competitive, it will still have to look beyond internal management to some kind of international forum for uniform rules on factors that accelerate or decelerate trade, but that are still beyond the reach and competence of the GATT.

Some of these trade-driving factors are exchange rates, whimsically monitored by the Group of Seven; export financing, covered by a "gentlemen's agreement" in the Organization for Economic Cooperation and Development; tax systems, blissfully unsupervised and uncomparing; and international security expenses, currently burdening U.S. products with extra costs. If that short list seems discouraging, it helps to remember that the road to free trade has never been easy. Without the ITO, the GATT was not expected to survive back in 1948. And the vote on the negotiating authority looked like a loser in March. ■

*It may
have
peaked, or
stabilized,
but few
would
dare to
make that
prediction.*

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SUBJECT:

As per our telcon

Direct & Indirect Manufactured Exports
and Export Related Employment

1987 & 1991

* 1991 data are estimated.

FLORIDA		
① Total Export Related Employment	213,600	807,001
② Estimated 1991 Direct + Indirect Manufacturing Exports	\$8.8 billion	\$15.5 billion
1987		
① Total Export Related Employment	213,600	807,001
② Estimated 1991 Direct + Indirect Manufacturing Exports	\$8.8 billion	\$15.5 billion

ILLINOIS		
① Total Export Related Employment	277,400	410,045
② Est. 1991 Direct + Indirect Manufacturing Exports	\$19.0 billion	\$34.6 billion

OKLAHOMA		
① Total Export Related Employment	49,500	72,041
② Est. 1991 Direct + Indirect Manufacturing Exports	\$2.9 billion	\$5.1 billion

LOUISIANA		
① Total Export Related Employment	57,200	77,349
② Est. 1991 Direct + Indirect Manufacturing Exports	\$7.7 billion	\$12.8 billion

MISSISSIPPI		
① Total Export Related Employment	43,300	63,783
② Est. 1991 Direct + Indirect Manufacturing Exports	\$3.3 billion	\$5.9 billion

<u>TENNESSEE</u>	<u>1987</u>	<u>1991[^] EST</u>
① Total Export Related Employment	99,600	149,125
② Est 1991 Direct + Indirect Manufactured Exports	\$7.3 billion	\$13.5 billion

<u>SOUTH CAROLINA</u>		
① Total Export Related Employment	86,900	127,964
② Direct + Indirect Manufactured Exports	\$6.6 billion	\$11.9 billion



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

*Copy
Research*

THE CHAIRMAN

March 4, 1992

MEMORANDUM FOR DAVID DEMAREST

FROM: MICHAEL J. BOSKIN *mjb*

SUBJECT: State Snippets

Here are some snippets on several states the President is visiting. You should know that the state unemployment data usually lag behind by one to two months and are subject to wide swings due to sampling errors. Also, some states generate their own data rather than relying on the BLS data.

Tennessee

- o In December 1991, the unemployment rate was 6.5 percent, 0.6 percentage point below the national average.
 - On average over the past two years, the unemployment rate in Tennessee has been slightly (0.2 to 0.3 percentage point) below the national average.
- o Manufacturing accounts for 23.0 percent of employment in Tennessee, in contrast to 16.9 percent for the Nation as a whole.
 - Relative to the national average, manufacturing employment is more concentrated in apparel and other textile products, furniture and fixtures, chemicals, and rubber and plastic products.
- o Tennessee ranks 43rd in the Nation in educational expenditures per pupil (1990 data).
 - Standards of living of Tennessee's residents can be increased through improved education and job training. The Administration's educational strategy, America 2000, and the job training initiative, Job Training 2000, provide a blueprint for improved education and a more effective way to deliver Federal training programs.

Oklahoma

- o In December 1991, the unemployment rate was 6.4 percent, 0.7 percent point below the national average.
 - Over the past two years, the unemployment rate in Oklahoma has been close to the national average.
- o Oil and gas extraction is very important for the Oklahoma economy; it accounts for 3.4 percent of employment in the state, as compared to 0.4 percent for the Nation as a whole.
 - The Administration's National Energy Strategy proposes additional funds to develop improved methods for recovering more oil from existing pools. The Strategy also calls for open access to natural gas pipelines which eliminates potential for discrimination in the pricing of natural gas; more competitive pricing also will provide incentives to increase natural gas production.
 - The capital gains tax cut would enhance incentives for investment in private oil extraction.
- o Relative to the national average, a high proportion of real estate assets held by banks in Oklahoma are classified as "troubled" by the FDIC (this classification largely represents noncurrent loans and repossessed properties).
 - Administration policies to aid real estate--the \$5000 tax credit and penalty-free withdrawal from IRAs for first-time homeowner tax credit and the restoration of certain passive loss provisions--as well as the effect of the capital gains tax cut on asset values should help improve real estate markets.

Mississippi

- o In December 1991, the unemployment rate was 7.5 percent, 0.4 percentage point above the national average.
 - On average over 1990 and 1991, however, the unemployment rate in Mississippi significantly exceeded the national average (by almost 2 percentage points).

- o In terms of the percentage of state output devoted to defense, Mississippi ranks in the top 10 in the United States according to the CBO. Output for defense is estimated to exceed 8 percent of Mississippi's economy. (But because of the relatively small size of the state economy, Mississippi does not rank in the top 10 in terms of absolute levels of defense spending.)
 - Administration job training programs, such as Job Training 2000, will aid the transition for workers in defense-related industries that are turning towards civilian production.
- o Manufacturing accounts for 26.3 percent of employment in Mississippi, in contrast to 16.9 percent for the Nation as a whole.
 - Relative to the national average, manufacturing employment is more concentrated in lumber and wood products, apparel, and transportation equipment.
- o In 1990, Mississippi ranked 50th among the states in per capita personal income.
- o Mississippi ranks 49th in the Nation in educational expenditures per pupil (1990 data).
 - Standards of living of Mississippi's residents can be increased through improved education and job training. The Administration's educational strategy, America 2000, and the job training initiative, Job Training 2000, provide a blueprint for improved education and a more effective way to deliver Federal training programs.

Alabama

- o In December 1991, the unemployment rate was 7.0 percent, about the same as the national average.
 - The unemployment rate in Alabama has averaged close to 7 percent each year since 1988, whereas before the recession, the unemployment rate in the Nation averaged as low as 5.3 percent (in 1989).
- o Manufacturing accounts for 23.2 percent of employment in Alabama, in contrast to 16.9 percent for the nation as a whole.

- Relative to the national average, manufacturing employment is more concentrated in textiles and primary metals (for example, steel) industries.
 - A relatively large share of primary metals production is exported (based on national data).
- o In 1990, Alabama ranked 44th among the states in per capita personal income.
- o Alabama ranked 46th in the Nation in educational expenditures per pupil (1990 data).
 - Standards of living of Alabama's residents can be increased through improved education and job training. The Administration's educational strategy, America 2000, and the job training initiative, Job Training 2000, provide a blueprint for improved education and a more effective way to deliver Federal training programs.

EXPORTS AND EMPLOYMENT BY STATES
By Region and State
Estimated 1991
(Millions of Current Dollars)

State and Region	est. 1991 Exports			Employment	
	Direct	Indirect	Total	1987	est. 1991
New England					
Connecticut	8376.9	5645.9	14033.8	127500	187842
Maine	1423.4	1457.4	2880.7	23800	35125
Massachusetts	11273.9	10421.9	21696.1	190600	282251
New Hampshire	2037.5	2655.9	4693.5	34900	50353
Rhode Island	1215.3	1441.2	2768.5	30800	47004
Vermont	1124.9	1275.9	2384.4	19600	31112
Mideast					
Delaware	843.6	943.6	1786.4	14300	19151
District of Columbia					
Maryland	3515.5	3410.4	6766.8	67000	100511
New Jersey	6838	10317.8	17154.5	184400	269091
New York	21360.8	19733.4	41094.4	391700	595848
Pennsylvania	12156.1	19942.1	32098.8	272700	419502
Great Lakes					
Illinois	15148.5	19443.2	34593.2	277400	410845
Indiana	9259.3	15080.5	24328.3	155200	246185
Michigan	22735.5	17061.3	39862.3	267800	400337
Ohio	23634.8	24451.3	48086.5	311700	472167
Wisconsin	71015	8297.2	15395	135400	196435
Plains					
Iowa	4370.2	3216.8	7561.3	60700	87028
Kansas	3124.1	2585.3	5706.6	52000	72489
Minnesota	7914.7	5950.7	13852.5	121200	170468
Missouri	9457.3	6090	15548.1	110900	168169
Nebraska	1269.5	1382.9	2662.2	26100	37930
North Dakota	355.3	184.2	535.4	8800	11605
South Dakota	468	377.6	846.6	11100	16148
Southeast					
Alabama	3927	7159.5	11066.7	79400	122676
Arkansas	2304.5	3372.5	5715.9	44700	66149
Florida	8263.4	7274.5	15547.8	213600	307001
Georgia	6332.5	7777.8	14131.3	114400	170283
Kentucky	5146.3	5906.6	11047.9	65300	97776
Louisiana	5582.6	7236.9	12819.5	57200	77349
Mississippi	2990.2	2963.2	5931.3	43300	63783
North Carolina	10537.6	12761.1	23299.7	163500	252494
South Carolina	5728.9	6222.7	11939.2	86900	127964
Tennessee	6402	7070.2	13972.2	99600	149125
Virginia	6281.2	5788.1	12080.1	101600	146873
West Virginia	1909.7	2744.4	4655.6	29600	43921
Southwest					
Arizona	3742.2	5491.4	9233.7	76500	119374
New Mexico	395.1	991.1	1309.2	12900	19876
Oklahoma	2404.3	2669.7	5120.5	49500	72041
Texas	23960.3	27970.1	51930.5	347200	498152
Rocky Mountain					
Colorado	3113.3	2649.6	5756.4	62200	89361

Idaho	1280.3	774.8	2056.8	20400	28603
Montana	220.5	619.6	835.7	8400	11470
Utah	1043	1457.5	2492.4	25000	38086
Wyoming	65.4	249.3	314.8	4500	6166
Far West					
California	40968.9	38522.3	79470.8	726700	1080873
Nevada	285.2	332.3	617.3	10200	15021
Oregon	3656.6	3342.2	6998.8	70400	101320
Washington	6776.4	5182.5	11923.4	111800	160192
Alaska	1374.7	230.4	1610.2	9000	11501
Hawaii	289.7	259.7	546.9	6900	9674

Source: U.S. Department of Commerce, Bureau of the Census and USTR.
 Latest available data for 1987 were in the Census' Analytical
 Report Series: Exports From Manufacturing Establishments: 1987.

Methodology: Estimation of 1991 exports was conducted by multiplying the national percentage growth of each SIC two-digit category from 1987-1991 by the given 1987 export data in each state two-digit SIC category. The total, direct, and indirect exports given are the sum of all twenty SIC two-digit categories constituting manufactures.

Export related employment was estimated by dividing manufacturing jobs per export earnings to determine a ratio in 1987, and then multiplying that ratio by the estimated 1991 total exports. Nonmanufacturing jobs related to exports in 1987 were then multiplied by the growth rate for manufactured export related employment from 1987-1991 to yield a 1991 estimate. This was then included in the total export related employment estimate. The 1991 total export related employment number was then deflated 18.7 percent to account for productivity gains and price inflation. This reduction was estimated from data provided from the Office of the Chief Economist, U.S. Department of Commerce.

Direct exports refer to manufactured goods sold directly to a foreign country with the knowledge of the manufacturer. Indirect exports refer to manufactured goods which are shipped to other manufacturers, whether in the home state or another state, to be included in a manufactured good to be exported with the manufacturers knowledge.