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Washington declares trade war on the world

by Marcia Merry

"It is a crazy situation when the United States is subsidizing Communist bloc nations and hurting its allies," is the best description of the outbreak of world trade policy disputes that has occurred this spring. The remark was made to the media by Rick Farley, the director of the Australian National Farmers Federation, commenting on the May 2 decision by President Bush to offer 1.65 million tons of scarce wheat to the Soviet Union at a subsidized price. The Australian farm reaction characterizes the whole "crazy situation" in world trade. While talking a lot of hooey about ending "trade-distorting practices," Washington is alienating allies and forcing a reorientation of U.S. and allied trade into an alignment with the interests of the Soviet Union.

On April 28, the Office of the United States Trade Representative issued a 214-page report called "Foreign Trade Barriers," which presented what the report calls a "Compilation of Country Barriers," listing hundreds of alleged trade violations by 34 trading partners of the United States. This report comes in fulfillment of a section of the Omnibus Trade and Competitiveness Act of 1988, which requires the Office of the U.S. Trade Representative, now occupied by Carla Hills, to submit an annual report to the President, the Senate Finance Committee, and various House of Representatives committees, on the subject of "significant foreign barriers to and distortions of trade."

The next step under the 1988 legislation is for the U.S. to retaliate against selected trade partners and practices. Under section 301 of the law, referred to as "Super 301," selected countries will be expected to correct trade practices objectionable to the United States over a three-year period, and subject themselves to U.S. scrutiny and intervention annually.

The "Smoot-Hawley memorial" report caused an uproar even in advance of its release. Officials and private associations of Japan and the European Community, the chief trading partners of the United States, came out denouncing the report, the thinking behind it, and the whole omnibus trade legislation of 1988. The European Community issued a report of its own on May 3 charging the United States with 42 trade practices that violate the interests of the 12 member-nations of the EC.

For one full week after its release, the U.S. Government Printing Office bookstore sold out its stocks of the report each day, as embassies and attorneys bought hundreds of copies to review the charges against their nations and economic trade sectors. Between one and nine pages in the report were taken up for each of the 34 countries to list the "trade-distorting" practices charged against that nation.

The EC trade officials are using the report as the occasion to further promote the role of the General Agreement on Tariffs and Trade (GATT), which Agriculture Secretary Clayton Yeutter also supports. But the immediate results of the "fair trade" rhetoric of Washington is to create acrimony and chaos—to the benefit of Soviet interests.

The longest entry in the U.S. report is on Japan, which is 18 pages on objectionable policies and contested trade goods, ranging from leather footwear to auto parts.

For the European Community, the biggest trade partner of the United States, agricultural trade was the foremost area of disputed practices, covered in nine pages of objections. The issues ranged from oilseeds to the EC ban on beef from U.S. cattle fed hormones. Also listed as objectionable were subsidies to the Airbus corporation, restricted access to telecommunications trade, "restrictive rules of origin and local

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content requirements," barriers to "intellectual property" protection—copyrights, etc.—quotas and tariffs on softwood plywood and various other items.

Accompanying the issuance of the report are various initiatives by U.S. Trade Representative Carla Hills, Congress, and other government agencies, to retaliate against nations charged with committing perceived trade "violations." May 30 is the target date for making initial retaliatory decisions.

Target: Japan

Carla Hills has released a target list of Japanese products that could face 100% duties, doubling their price in this country. The list covers tape recorders, color televisions, copying machines, and many other popular products. Hills said the potential targets were chosen because of a finding by the administration that the country has not opened its own telecommunications market to American companies. On May 24, a hearing is scheduled to review the "short list" of what might be chosen for retaliation.

The Japanese Electronics Industries Association released a report to Carla Hills and the public in advance of Hills's target list, saying that in view of the planned retaliatory action by Washington, the association favored canceling altogether the current treaty on electonics trade in force between Japan and the United States since 1986. The Japanese logic was that if the United States plans in advance to use retaliation in case bilateral talks go against their wishes, then there is no grounds for a treaty.

Many other countries have responded to the U.S. trade threats with similar criticism. South Korean officials called U.S. charges of unfair trading practices, "incorrect." Trade Minister Han Seung-soo told a press conference that the report lacked objectivity, and failed to recognize the recent steps taken by Seoul to open its own markets to U.S. imports. Han said, "Considerable portions [of the report] are incorrect. Some statements are different from fact and others cite figures whose bases are not clear." On May 11, trade officials from Seoul and Washington will conduct new talks, in which Han has indicated in advance that he will make concessions in terms of easing controls on foreign investment. But Han suggested that South Korea will retaliate through the GATT, if the U.S. imposes sanctions against his nation.

The U.S. report specifically names as possible targets for sanctions: Japan, South Korea, Taiwan, and Brazil. Canada, India, and the European Community are included as among the worst offenders of "free trade" as defined by the United States.

At the same time as the release of the U.S. trade report, Vice President Dan Quayle took a 12-day tour of Southeast Asia, issuing threats on trade, and offering no incentives for good relations.

On May 3, the European Community expressed its disapproval of the 1988 U.S. trade legislation—which authorized the contested U.S. report—in its own annual report on trade barriers. Released in Brussels, the EC report identifies barriers, including export subsidies, customs barriers, taxes, public procurement policies, and quotas, which total 42 areas of alleged U.S. trade violations of EC member-nations' interests. Trade spokesman Claus Ehlermann said the release of the EC report is an annual event, and was not timed with the U.S. report.

The EC report takes issue with the 1988 Omnibus Trade Bill, saying that the U.S. law will "make it more likely that unilateral action will be taken to redress allegedly unfair trade practices. Such unilateral action without authorization from the General Agreement on Tariffs and Trade is illegal." The EC report also cites such specific practices by the United States as its "nonconformity" in terms of customs users' fees, and other practices.

Among the many ironies of the current sparring over trade are the EC and U.S. complaints over each other's "buy homemade" policies. The May 3 EC report attacks the "buy American" provision of the 1988 trade law, as constituting "permanent discrimination in favor of U.S. products."

In turn, the U.S. trade report attacks the EC "buy national" policies. The report complains, "EC member states' 'buy national' policies and a lack of transparency on pending procurements and contract awards have cost U.S. firms substantial sales opportunities during the past 20 years."

In the midst of these general charges and countercharges over trade, President Bush's May 2 decision to offer the Soviet Union a subsidized sale of 1.65 million metric tons of U.S. wheat, was immediately blasted as hypocrisy by much of the world trade community. Australian Prime Minister Bob Hawke called Bush's action "surprising and hurtful." Vice President Quayle had visited Australia just one week earlier and asserted that U.S. trade policies, including the infamous "Export Enhancement Program," were not detrimental to the interests of Australia—a wheat exporter. As usual, Quayle was ignorant of the facts—especially as viewed by Australian grain traders. Australian Grains Council director Laurie Eakin said the Australian share of the Soviet wheat market has crumbled to 3% from 20% since the U.S. began selling subsidized wheat four years ago. Australian Democrats deputy leader Michael Macklin said the sale—the first subsidized sale since the Bush administration took office—was a "kick in the guts" for Australian farmers.

In fact, Bush's action was predictable from the point of view of the administration's commitment to appeasement on every count. Years of free trade rhetoric by Clayton Yeutter, former U.S. Trade Representative, and now Agriculture Secretary, have nothing to do with the current food tribute being paid by the United States—and also the EC—to Russia. Bush justified his action by saying that it was necessary to support Gorbachov's *glasnost* and democratization. Senate Agriculture Committee chairman Patrick Leahy (D-Vt.) further draped the decision in the mantle of "fair trade" by saying the United States has the right to retain its current "market share."