



DEPARTMENT OF STATE INSTRUCTION

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The importance to our national security of the administration's liberal trade policy and the adverse security effects of trade restrictions have been the subject of considerable attention in recent months within the Government. The enclosed paper, prepared in the Department of State as background for inter-departmental discussions, is enclosed for your general information.

HERTER

Enclosure:

"Trade Policy and National Security"
paper dated June 4, 1959.

State Dept. declassification & release instructions on file

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DEPARTMENT OF STATE

TRADE POLICY
AND
NATIONAL SECURITY

June 4, 1959

TRADE POLICY AND NATIONAL SECURITY

The broad objective of US foreign economic policy is identical with that of our general foreign policy: to protect and advance the national interest, to improve the security and well-being of the US and its people.

This broad objective of our foreign economic policy has three major components. First, to promote the economic strength of the US, second, to promote the economic strength of the rest of the free world, and third, to build and maintain cohesion in the free world.

To achieve these objectives we have followed three basic economic policies: The expansion of trade; the promotion of private investment; and provision of mutual assistance.

During the past 6 years, by building on existing programs and, even more important, by developing new programs designed to meet new needs and changing conditions, there has been created a complex pattern of interrelated programs. Some of them we carry out on our own and others in cooperation with friendly nations. These programs are well suited to the promotion of our basic objectives.

At the present time, however, the achievement of these objectives is endangered from within by the growth of protectionist sentiment and from the outside by the Soviet economic offensive. My purpose this morning is to suggest some of the ways in which protectionism adversely affects our domestic economy, our political-economic relations with our allies and therefore our national security.

I would like to deal first with the general aspects of the problem and then turn to specific illustrations.

Protectionism has certain recognizable benefits. It can assure the survival of a sensitive industry which might otherwise succumb because of its competitive disadvantages. It can provide a blanket for an infant industry during its formative years. It can prevent economic and social disruption in a community dependent on a single industry and without the resources to develop alternative industries.

In spite of these recognizable advantages, however, there are relatively few people who would contend that protectionism provides a basis for a dynamic expanding economy. The reasons are obvious.

Protection discourages the development of new products, new methods of production and distribution, and cost-saving techniques.

Protection reduces our ability to compete with other industrialized economies.

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Protection contributes to inflation by raising the costs of the products we buy abroad.

It imperils our export markets by making it more difficult for other countries to earn the dollars they need in order to buy from us. It also endangers those markets by inviting retaliation on the part of other countries.

Protectionist measures inevitably reduce total US output by preventing the shift of domestic resources from less efficient to more efficient industries. By lowering our total national product, such measures slow down our rate of growth and reduce the resources available for our security needs, including aid to the less developed countries.

Having indicated the effects of protectionist policy on the domestic economy, I would like to indicate briefly the effects on the economies of other countries.

Foreign trade is vitally important to our economy, but even so it constitutes only 4% of our gross national product. In other major industrial countries (such as the UK, West Germany and France) the ratio of exports to gross national product is 3 to 4 times greater. It is 5 to 9 times as great for smaller advanced nations such as Belgium, Sweden and the Netherlands. For example, approximately one-half of everything the Netherlands produces is shipped abroad.

Our trade policy is of tremendous concern to all of these countries, first because exports play such a major role in their economies and secondly because the United States is a major market for their goods. Both of these reasons explain why any action by the United States which adversely affects sales of their key products, or threatens those sales, is front page news abroad and has a serious effect on our international relations with those countries. This is true even when the action itself does not seem important to us.

I can cite five specific examples of restrictive measures which have adversely affected four important allies. Lead and zinc affecting Canada, cheese affecting the Netherlands, electrical equipment and woolen fabrics affecting the United Kingdom and cotton textiles affecting Japan.

In the case of many less developed countries, one, or a few commodities, comprise the bulk of their exports. For many of these countries the US market is especially important. To illustrate this point, the United States imports

- 2/3 of Chile's copper
- 1/2 of Cuba's sugar
- 1/4 of Indonesia's rubber
- 1/3 of Bolivia's tin
- over 1/2 of Brazil's coffee
- 2/5 of Venezuela's oil
- 2/3 of Peru's lead and zinc.

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The ability of the less developed countries to sell their products in the United States affects their ability to import capital goods and other necessary manufactured products.

Therefore, it determines in large measure the basis of their economic growth and their ability to raise standards of living.

The promotion of economic growth in the less developed countries is of course a prime objective of our foreign policy. By this means we hope to help those countries to achieve peace and stability. Unfortunately their economic health can be seriously damaged by US import restrictions. Our import quotas on petroleum, lead and zinc, and cotton, for example, have had that effect on Mexico, Venezuela, Peru, Indonesia, Egypt, the Sudan and other less developed countries.

The Soviet Union, of course, recognizes clearly the major role that trade can play in furthering its objectives. The evidence clearly shows that friendly countries, when denied access to our market, are forced to increase their economic dependence on the Soviet Bloc. As a specific example, after the imposition of restrictions against Uruguayan wool tops in 1953, the Soviet Bloc steadily increased its purchases, and as a result it is now the most important outlet for Uruguayan wool tops. Recently our countervailing duty on wool tops was removed. As you know, our action to impose quotas on lead and zinc was followed by violent anti-American reactions in Peru and there have been sharp reactions in Venezuela to our oil import policy.

In assessing where we stand today it is important, of course, to keep the picture in balance. On the one hand, since 1953 we have pursued an active policy for the promotion of international trade. We have taken part in two successful trade conferences in 1955 and 1956. It is true that many of the tariff concessions we gave at those conferences were small, amounting to no more than a 15% reduction in the existing duty. Nevertheless imports of the products affected by the concessions were valued at approximately \$1 billion. A great deal of attention has been given to escape clause actions that we have found it necessary to take in recent years. Unfortunately little account is taken of the applications that were turned down. Other countries often fail to acknowledge that out of 27 cases in which escape clause action was recommended by the Tariff Commission no action was taken in 19 cases.

On the other side of the balance, there are the various restrictive measures that have been taken. You will note from the chart that since 1953 we have taken restrictive action on 29 commodity groups exported from 45 free world countries.

ACTIONS TAKEN TO RESTRICT IMPORTS, SINCE JANUARY 1, 1959
AND COMMODITIES AFFECTED

<u>Commodities Affected (29)</u>	<u>No. of Countries Affected (45)</u>	<u>Type of Action*</u>	<u>Date of Action</u>
Cattle	2	TAR	APR '53
Wool Tops	1	CD	MAY '53 ^{1/}
Butter and/or Butter Oil	5	22	JUL '53
Cheese	8	22	JUL '53
Dried Milk Products	4	22	JUL '53
Flaxseed and/or Linseed Oil	2	22	JUL '53
Peanuts and/or Pea- nut Oil	6	22	JUL '53
Petroleum (Voluntary Program Mar '54 - Mandatory Program Mar '59)	9	NSA	MAR '54
Rye and Rye Flour	1	22	APR '54
Alsike Clover	1	EC	JUN '54
Watch Movements	5	EC	JUL '54
Fishsticks	1	L	AUG '54
Hardboard	1	AD	AUG '54
Bicycles	8	EC	AUG '55
Cast Iron Soil Pipe	1	AD	OCT '55
Tuna Canned in Brine	3	GR	MAR '56
Toweling	4	EC	JUN '56
Woolens	9	GR	OCT '56
Heavy Electrical Equipment	2	BA	MAR '57
Clothespins	11	EC	NOV '57
Safety Pins	4	EC	NOV '57
Tung Nuts and Oil	4	22	NOV '57
Thermometers	2	EC	APR '58
Small Arms	7	L	JUN '58
Long Staple Cotton	4	22	JUL '58
Rubber-soled Foot- wear	3	L	SEP '58
Lead	16	EC	OCT '58
Zinc	15	EC	OCT '58
Almonds	1	CD	JAN '59

* EC - Escape Clause
GR - Invocation of Geneva Reservation
L - Legislation
22 - Section 22
CD - Countervailing Duty

AD - Antidumping
BA - Buy American
NSA - National Security Amendment
TAR - Invocation of Trade Agree-
ment Reservation

^{1/} Removed, March, 1959.

It is statistically impossible to determine precisely how much trade is affected by these restrictions. However, it has been calculated on the basis of the latest figures available, that is for 1957, the trade affected by these restrictions represented about \$2.1 billion or 28% of US imports of competitive items. Out of this total oil products account for approximately \$1.5 billion and the remaining items account for about \$600 million. These figures are subject to a number of qualifications. For one thing the more effective the action in restricting imports the smaller the trade.

You will note from the map that some countries are affected by only one restriction, whereas others are affected by as many as twelve. Venezuela for example, has been affected only by our restrictions of oil imports, but oil directly involves more than 80% of that country's exports to the United States.

I would like to comment briefly on several of the more important cases shown on the chart.

First, Heavy electrical equipment -- Our decision on the Greer's Ferry case created an uproar in the United Kingdom. One extreme sector of British opinion called for immediate discrimination against purchases in the United States. The British consider the pending OCEM heavy electrical equipment case "the most important subject in economic relations between the United States and the United Kingdom since the institution of the Smoot Hawley Tariff."

Lead and Zinc -- When quotas were imposed Australian press and official comments were unusually severe in their criticism. Our action became a major political issue. The case has clearly affected our position in a country which is the southern anchor of our Pacific defense perimeter.

In Canada our lead and zinc action was viewed in the context of a number of other United States policies and actions which have been the source of increasing resentment, such as our restrictions on agricultural imports and our surplus agricultural disposal operations.

Mexican press, labor and management officials were also very critical. Intensely emotional demonstrations and condemnation of the United States occurred in Peru.

Petroleum -- The Venezuelans have asked for equal treatment on the grounds that their oil, like Canada's, is vital to the defense and security of the Western Hemisphere. We are worried that the Venezuelans will institute oil pro-rationing and export controls to the disadvantage of US companies. We have to recognize that they may want to change our bilateral trade agreement drastically and possibly abrogate it. Either course of action would seriously hurt our large export sales to Venezuela.

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The second chart shows that there are now outstanding 13 requests for restrictions on imports. These represent trade valued at approximately \$300 million in 1957. They would affect six new countries, in addition to those already affected by previous measures.

This second chart also reflects a trend which is giving other countries great concern. You will note that seven out of the thirteen requests now pending have been made under the national security amendment. There is a strong feeling abroad that domestic industries are seeking to use the national security amendment to achieve protection which they do not think they can obtain by applying under the escape clause.

PENDING PROPOSALS FOR RESTRICTIVE ACTION

<u>Commodities - 13</u>	<u>Old Countries Affected - 36</u>	<u>New Countries Affected - 6</u>	<u>Type of Action Proposed</u>
Hardwood Plywood	10	1	EC
Mink Skins	6		EC
Stainless Steel Flatware	6		EC
Woven Silk Fabrics	6		EC
Red Fescue Seed	4		EC
Long Staple Cotton	4		EC
Cobalt	7		NSA
Dental Burrs	4		NSA
Fluorspar	6		NSA
Heavy Electrical Equipment	6		NSA
Steam Turbine Generators	6		NSA
Tungsten	11	4	NSA
Wool Knit Gloves	6	1	NSA

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No discussion of restrictive measures would be complete, of course, without some mention of so-called "voluntary export controls." These are the measures which other countries, such as Japan and Italy, have taken to restrict their exports to us. They represent a new kind of protectionism -- protection in reverse -- under which the exporting country limits its exports rather than the importing country its imports. At present, it is estimated, one-half of Japan's exports to the US are subject to some form of restriction.

Viewed independently, and in perspective, the specific restrictions imposed in recent years may seem relatively unimportant. Nevertheless, it has been made abundantly clear to us that these restrictions are having an increasingly serious effect upon our ability to achieve our foreign policy objectives. And it is apparent that the potential for harm greatly exceeds the harm done thus far. It is possible to identify, as I have done, the cases where individual countries have been adversely affected by restrictions we have imposed. The impact has varied in each case. The cumulative impact has also varied.

We believe that we have reached a point, however, where any action has a disproportionate impact because of the preceding actions, and where the element of fear of the future can be expected to play an increasingly important part in determining foreign reactions to any further restrictive measures we may impose.

At the present time most of the important industrialized countries of the world have overcome, or are about to overcome, the balance of payments difficulties which justified their retention of protective measures following the war. Therefore we can expect to see an expansion of world trade and, consequently, of our own export sales. At the same time the less developed countries of the world are seeking to expand their economies. It is clear, however, that at this juncture the course of future events will be determined almost entirely by what the US does. If we provide the leadership in liberalizing trade, the rest of the free world can be expected to follow our example.

There are a number of critical choices to be made in the immediate future. Regional trading arrangements are proliferating around the world. In Europe the six-country common market is already a going concern. Negotiations are seriously under way toward establishment of a free-trade area of seven other countries in Western Europe -- the UK, the Scandinavian countries, Austria, Switzerland and Portugal. South America is determined to organize one or more common markets; and Central America is already committed to establishing a customs union.

US policy in the trade field will determine to a very large extent the evolving course of these arrangements -- whether they will look outward toward the development of a multilateral world trading system, or whether they will look inward in the pursuit of self-sufficiency.

A major test of US policy is pending in the tariff negotiations scheduled to start in September 1960. These negotiations are the result of our initiative. A principal element will be the effort of many countries to negotiate reductions in the common tariff of the European common market.

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However, some of our European allies have already expressed doubt about the extent to which we will be willing to offer real and meaningful concessions in our own tariff in order to give impetus to the successful conclusion of the world-wide negotiations. The success of these negotiations, therefore, will depend upon us.

Our basic national security interests require that we continue to exercise positive and dynamic leadership not only in political and military fields but also in the economic fields.

That is why the Department of State is convinced that every action we take that adversely affects our ability to maintain a dynamic expanding domestic economy and weakens the ability of our allies to maintain their political and economic stability, has serious implications for our national security.

Let me conclude by saying that, in our judgment, the organizational means are already available through which national security considerations can be brought to bear in the most important cases involving proposals for restrictive measures. This is true in escape clause cases, where the Trade Policy Committee is responsible for advising the President. It is also true in cases arising under the national security amendment to the Trade Agreements Act, which provides that the advice of all interested agencies shall be sought in arriving at a recommended course of action. Measures taken under Section 22 are the most outstanding exception to this generalization. Furthermore, considerations of national security cannot be brought to bear in determining whether restrictive action should be taken in other cases, such as antidumping cases. However, these exceptions do not affect the general conclusion that the existing machinery is generally satisfactory and is working well. It is the Department's view that it would not be desirable, if indeed politically feasible, to attempt to revise existing legislation to insure the inclusion of appropriate provisions permitting national security considerations to be taken into account in all cases involving restrictive action.

I do not mean to suggest that there is no need for action in this field. We are much aware of the need for more information as a basis for policy determinations. As you know, a number of studies are currently underway which will provide an analysis of the causes of recent changes in our foreign trade position. An interdepartmental committee, under the chairmanship of the Department of Commerce, will search for the answers to a number of pertinent questions. Have advances in productivity in the US lagged behind those occurring elsewhere? Have our major costs increased too rapidly? Have we, through price supports and import restrictions, artificially raised the costs of raw materials to our own manufacturers? Does our domestic tax system militate against investment and technological improvement?

At the initiative of the Department of State the Committee for a National Trade Policy is also devoting special attention to the problem of our foreign trade position.

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Increasing protectionism is not the answer to the problem of stimulating advances in productivity. It would insulate domestic industries from pressures to reduce costs and thereby make them less competitive.

Unfortunately, at the present time when an industry is faced with serious injury as a result of imports, there is no alternative but to consider raising duties or imposing quotas. Therefore, the Department of State believes that renewed consideration should be given to sponsoring another avenue of relief through adjustment assistance. This alternative might provide for low-cost loans for modernization and technological improvement, facilities for retraining workers, or conversion to other kinds of manufacture, or even encouragement to relocate factories.

Adjustment assistance is the approach being taken in the European Common Market to deal with the problem of internal adjustments to competition. The British have also embarked on a similar program with respect to their domestic textile industry.

In short, we have to search constantly for new ways to improve the competitive position of our industry through affirmative actions rather than by building a wall against entry of goods from abroad.

Our conclusion is relatively simple. What we do to restrict trade and what other countries fear we may do, will determine to an important extent whether our foreign economic policy measures are successful, and whether we are successful in the economic contest with the Soviet Union.