7 The Turbulent Decades of the 1970s and 1980s

For multilateral trade cooperation, the 1970s and 1980s were particularly stressful decades. Protectionist sentiment and unilateral action to shelter specific industries from foreign competition have almost always been present on the political landscape of every country. But such sentiment especially gained strength in the industrially more established countries in the late 1970s and early 1980s, and these countries individually took numerous actions to restrict access to their markets for particular goods or services. Indeed, the protectionist upsurge appeared to acquire such force that a growing number of observers expressed deepening fears for the viability of the multilateral trade regime. The nadir of international confidence in the regime perhaps came in November 1982, when GATT convened a ministerial meeting on trade policy. In a meeting reminiscent of the trade conferences held in the 1920s and 1930s, representatives made urgent calls for countries to commit themselves to "standstills" on further protectionist measures.[1] Such a commitment was seen as the best that could be accomplished at the time, though it exercised no more restraint on national policies than it had in the interwar years.

Though the fears were understandable, the regime built up by multilateral trade cooperation survived the stress. There were strong countercurrents at work below the surface, and despite the adverse economic circumstances of the period, the influence of those currents was sufficient to preserve trade cooperation and even to revive the forward momentum of trade liberalization. Though the world economy grew more slowly in the 1970s and 1980s than it had in the preceding two decades, world trade continued to expand more rapidly than world production (the exceptions being solely the two recession years of 1981 and 1982). In the United States, the leading trading nation, exports of goods and services actually rose over the two decades, from about 5 percent of gross domestic product in 1969 to about 10 percent in 1989. The drive behind the search of corporate enterprises for markets and sources of supply was evidently not diminishing. It provided the impetus for the initiation of two more sets of multilateral trade negotiations during these decades, the Tokyo Round, which began in 1973 and was completed in 1979, and the Uruguay Round, which was started in 1986.

THE TOKYO ROUND

Though the worst stresses to trade cooperation were not to become apparent until the later 1970s, the environment at the commencement of the decade was hardly auspicious. The United States was experiencing a recession, and the overvaluation of the dollar not only aggravated the protectionist pressures generated by recession but also impaired the performance of exports. President Nixon responded to the situation with the establishment of the Commission on International Trade and Investment Policy, better known as the Williams Commission. When the commission issued its report in 1971, it spoke of a "crisis of confidence" in the international system of trade and payments.[2]

However, by the time the Tokyo Round was launched in 1973, the U.S. economy was booming, and the overvaluation of the dollar had disappeared as a result of the major currency realignment that followed abandonment of the Bretton Woods exchange rate system.[3] Though the boom was succeeded in 1974 by a lengthy period of worsened economic conditions in all the industrially more established countries (as is described more fully in the next section of this chapter), the Tokyo Round negotiators were nonetheless able to agree on a further, substantial reduction in tariffs. By the time negotiations were completed in 1979, the industrially more established countries had agreed on reductions that brought their average tariff levels on manufactured imports down to less than 5 percent. Most distinguishing the Tokyo Round from its predecessors, however, was the major effort made to tighten the trade rules of GATT. The round was also notable in extending the reach of the principle of national treatment into a new area of domestic policy—namely, government procurement. Both of these departures assumed still greater importance in later advances in trade cooperation in the 1980s and 1990s.

The past success of countries in lowering tariffs (which they then bound themselves not to alter) was the central reason for the new focus on trade rules in the Tokyo Round. As tariff barriers were lowered, traders became increasingly aware that national laws and regulations relating to trade presented numerous other impediments to foreign competition. The more governments negotiated away their power to utilize tariffs for protectionist purposes, the more they were urged to utilize these other measures as alternative means of protection. The Williams Commission, in particular, stressed that American exports were being impeded by foreign nontariff barriers. It accordingly proposed multilateral negotiations to draw up codes of conduct on several practices deemed restrictive of trade.

The belief that other countries were using nontariff barriers to frustrate the effects of tariff reductions was not confined to the United States. The Europeans, among others, took exception to some American practices. The "injury test" that GATT required countries to apply in cases where countervailing duties against subsidized imports were being sought was neglected in the United States. (The affected industry was supposed to be able to demonstrate that it had suffered significant injury as a result of subsidized imports.) The Europeans also wanted to return to issues raised during the Kennedy Round, when the U.S. administration had agreed to new rules relating to antidumping duties and to methods of customs valuation. (As I mentioned in chapter 6, Congress had rejected these changes on the grounds that the administration had exceeded its negotiating authority.)

Some Rules Are Tightened

The agenda for the Tokyo Round gave a large place to the negotiation of codes of conduct on several trade-related practices or procedures. It made most progress in tackling those barriers that had their source in the practices and requirements of national customs and trade administrations: the methods used by customs authorities in valuing imports for the purpose of levying duties, import licensing procedures, and the technical requirements that imports had to meet to satisfy national health or safety standards.[4]

When duty was calculated on an ad valorem basis, the method used in valuing imported merchandise was clearly important in determining the amount of import duty that an importer had to pay. The method varied considerably, so the new code established rules to introduce greater uniformity. The administration of import licensing was another source of dissatisfaction, since customs authorities could apply licenses in ways that others saw as discriminatory. The new code introduced procedures to eliminate this possibility. Another obstacle facing many imported goods was difficulty in meeting the technical requirements laid down by national authorities for major categories of products (e.g., electrical appliances or pharmaceuticals). The technical standards, the methods of testing, and the systems of certification could–intentionally or not–be effective barriers to imports. The new code sought to ensure that the principles of nondiscrimination and national treatment would be respected in the administration of technical regulations, and it encouraged a movement toward the international harmonization of standards and methods.[5]

Less progress was made in strengthening the unfair-trade rules relating to subsidies and dumping; only modest changes were adopted. In fact, whereas the Europeans wanted a more rigorous application of the injury test, the U.S. Congress relaxed the injury requirement through the 1974 Trade Act. There was, moreover, a significant difference of opinion between the United States and Europe on subsidies. The United States complained that European governments provided extensive subsidies to individual industries either directly or through state ownership; the Europeans countered that the huge U.S. public expenditure on the armaments and aerospace industries was, in effect, subsidizing the technological research and development that gave American industry its competitive edge. Different beliefs about the appropriate relationship between the state and private enterprise lay close to the heart of this issue. One side saw subsidies as a legitimate instrument of state-directed industrial policy, while the other side believed that the state should generally allow the market to determine industrial performance.

The failure to make progress on antidumping rules occurred for a more straightforward, political reason. Despite intellectual recognition that a more rigorous and transparent set of rules about antidumping duties was needed to prevent their abuse as a protectionist measure, governments were reluctant to redraft the rules in ways that would restrict their room for maneuver. Precisely the looseness of the rules was politically attractive. Should the demands of industries agitating for protection become politically too burdensome, the loose rules provided governments with a means of placating the industries in a manner consistent with GATT obligations.

Unresolved Issues

For political reasons, even less progress was made in dealing with two protectionist devices that were being resorted to by the industrially more established countries: voluntary export restraints and orderly marketing agreements. These measures lay outside the rules of GATT and were substitutes for action that could be taken under the safeguard clause in GATT. This clause required, however, that import restrictions be applied in a nondiscriminatory way. Primarily for this reason, the industrially more established countries had preferred not to invoke the clause but to resort instead to action outside GATT rules. In the hope of outlawing the use of voluntary export restraints and orderly marketing agreements, an attempt was made during the Tokyo Round to revise the safeguard clause to make it an operational alternative. But the attempt foundered on the fact that most of the industrially more established countries, particularly the EEC, continued to insist on the freedom to apply import restriction in a discriminatory way.

The Tokyo Round failed even more clearly to subject agriculture and textiles—two key sectors of merchandise trade—to GATT disciplines. Both sectors continued to prove highly resistant to open trade policies. President Nixon, like President Kennedy before him, had made promises to the textile industry in his 1972 reelection campaign. The outcome, which had the active support of European governments, was the conversion of the Long-Term Cotton Textile Arrangement into the Multi-Fiber Arrangement.

The United States placed agricultural trade on the agenda of the Tokyo Round. While the United States protected some agricultural products, such as cotton, sugar, and dairy products, it wanted to open up foreign markets for products in which it had a competitive advantage, such as wheat and beef. The EEC, however, was wedded to its Common Agricultural Policy, with its highly protectionist barriers of import quotas and variable levies. For the EEC, the stabilization of rural production and incomes was politically more important than the liberalization of trade. In its view, the best way to manage international markets for agricultural products was the negotiation of market shares through such means as commodity agreements.

Government Procurement: A Limited Extension of National Treatment

A more positive outcome of the Tokyo Round was the code relating to government procurement. The code required governments to abandon the practice of awarding public contracts only to national suppliers. This marked a significant new step in trade cooperation, because it took the trade regime beyond the realm of barriers at the border and into the world of internal policies. It was an extended application of the idea of national treatment, one that was carried much further in the Uruguay Round. But the code was also significant because the industrially more established countries decided that unconditional most-favored-nation treatment should not apply to it. Countries that agreed to sign the code would apply it only to the other countries that had signed it. It was a breach of the principle of nondiscrimination that had been at least formally, if not practically, respected since the founding of GATT.

Recognition of Preferential Treatment for Developing Countries

What the developing countries secured from the Tokyo Round was indicative of the dualism in rules and practices that the multilateral trade regime was acquiring. At UNCTAD conferences in the 1960s, these countries had won acceptance from a number of the industrially more established countries for the proposed Generalized System of Preferences. In the Tokyo Round, the developing countries gained a change in the General Agreement on Tariffs and Trade to provide a legal basis for preferential status under the GSP. It was understood, however, that over time, developing countries should graduate from their preferential status and become subject to the nondiscriminatory rules of GATT.

What Did the Tokyo Round Accomplish?

Did the Tokyo Round significantly advance trade cooperation? Viewed in a long-term context, the answer is surely positive. With the number of countries participating in the negotiations rising to ninety-nine, GATT acquired a more universal character; the industrially more established countries brought their average tariffs to low levels; several rules of conduct were refined or standardized, reducing the scope for arbitrary, unilateral action; and the principle of national treatment was extended to a new area. Perhaps most important was the shift in focus from past negotiations, which had concentrated largely on the negotiation of roughly equivalent reductions in tariff levels. In the Tokyo Round, the new emphasis was on reaching a consensus on common rules; in furthering trade cooperation, countries were no longer insisting on the careful balancing of reciprocal concessions as the sole basis for successful negotiations. On the other side of the balance sheet, however, was the evidence that the industrially more established countries remained unwilling to relinquish more than a modest portion of the considerable freedom they exercised to take unilateral action against specific imports. The completion of the Tokyo Round by itself thus did nothing to arrest the concurrent erosion of confidence in the multilateral regime.

THE UPSURGE IN PROTECTIONIST SENTIMENT AND ACTION

Commentators in the 1970s and 1980s put forward a number of different reasons for the loss of confidence in the trade regime and the upsurge in protectionist sentiment that occurred at the time.[6] Some pointed to the decline in American hegemony that followed from the resurgence in economic strength of Western Europe and Japan; they claimed that with its economic preeminence being challenged, American interest in advancing the open trade regime was diminishing. Others identified a general ideological shift away from the postwar free trade consensus as countries struggled with the loss of dynamism in economic growth and with structural weaknesses.[7] Critics of state intervention argued that the sources of rising protection lay precisely in the reluctance of governments to expose industries to the market forces that would bring about adaptation to changing conditions. They applied this argument particularly to Western Europe, where market rigidities traced to social legislation associated with the welfare state, especially such rigidities in the labor market, were seen as generating resistance to adaptation.

Whatever part such reasons may have played, it is clear that the main cause of the upsurge in protectionist sentiment and action lay in the much worsened general economic circumstances that the industrially more established countries were contending with during a large part of the period. Most significant was the deterioration in the levels of general economic activity. For the first time since the end of the Second World War, these countries simultaneously experienced a serious recession in 1974–75, and their subsequent recovery was marred by slow economic growth, higher levels of unemployment, and rising inflation. After OPEC's second oil price increase in 1979, monetary authorities sharply restricted the money supply as a counterinflationary measure, and in 1981–82, the world economy slid into the most severe of the postwar recessions. These conditions bred protectionist demands by businesses facing contracting markets at home and by workers fearing the spread of unemployment.

Events in the international economy aggravated these conjunctural conditions. When the Bretton Woods monetary system collapsed in 1973, it was replaced by the unfamiliar arrangement of fluctuating exchange rates. While it was believed (as I discussed in chapter 2) that this arrangement would ease external balance-of-payments adjustments, it was certainly not foreseen that exchange rates would become subject to wide swings over periods of several years. The consequence for countries was that, at times, both their exporting and their import-competing industries experienced severe price competition because of exchange rate changes. The U.S. dollar, for example, rose strongly against other currencies in the first half of the 1980s; its value against the yen increased by no less than 60 percent between 1981 and 1985. This gave added force to domestic producers' demands for relief through some measure of protection.[8]

These adverse economic circumstances overlaid the stresses arising from the need of industries to adapt to long-term shifts in global competitive advantage. Such shifts, which are inherent in a growing world economy, took particularly dramatic form in the 1970s and 1980s. At that time, Japan was joined by the newly industrializing countries of Southeast Asia in achieving extraordinarily high rates of economic growth and industrial transformation. Their newfound competitive strength–initially in textiles and clothing; then in heavier industries, such as steel, shipbuilding, and cars; and latterly in the technologically newest industries, such as consumer electronics and semiconductors–confronted industries in the industrially more established countries with fresh demands on their adaptability. That the structural change was quite rapid is suggested by the rise in the share of total merchandise imported into both North America and Western Europe from Japan and the newly industrializing countries of Southeast Asia between the 1960s and the 1980s (see table 4). It is not possible to say how well the countries of North America and Western Europe might have accommodated themselves to the fast-paced emergence of Japan and other East Asian countries as major industrial exporters if the depressed and unstable economic conditions of the period had not occurred. But it is clear that their governments' responses to the actual conditions focused substantially on the industries most affected by these structural changes.

A Spate of Additional Restrictions

Though, as members of GATT, the industrially more established countries had bound themselves not to raise their tariffs unilaterally, they all entered the 1970s with long practice in the use of nontariff, protectionist measures. The bilateral quotas established under the Long-Term Cotton Textile Arrangement, which became the Multi-Fiber Arrangement in 1974, stood as outstanding instances alongside quotas on many agricultural products. Most Western European countries had also continued to make use of quantitative restrictions on imports of a number of products (e.g., cars) since the end of the Second World War. The United States, too, had placed restrictions on particular imports, such as steel and petroleum, at different times and for varying periods.

In the late 1970s and early 1980s, governments opened the floodgates to a spate of additional restrictions on imports as they yielded to demands from individual domestic industries. In particular, numerous voluntary export restraints or orderly marketing agreements were negotiated with exporting countries. Before the early 1970s, only a handful of such arrangements had been known to exist–aside from those covering textiles and apparel. By the mid-1980s, however, the World Bank counted ninety such arrangements (see Grilli 1988, 313). In addition, governments began to make much greater use of their room for discretion in interpreting and enforcing national trade laws. In the EEC, administrative interpretations of customs rules and procedures, such as rules of origin or local content requirements, were used to restrict imports. A notorious instance was the ruling by the French authorities that videocassette recorders could be imported

TABLE 4. Share of Total Merchandise Imports from Japan and Six Asian Traders in North America and Western Europe

	Percent of Total Merchandise Imports				
	1963	1973	1983	1993	1998
Into North America					
Japan	7	11.4	14.2	16.2	11.7
Six Asian Traders[a]	2.4	6.1	10.6	12.7	11.4
Into Western Europe					
Japan	0.9	2.2	3.3	4.5	3.6
Six Asian Traders[a]	1.2	1.5	2.3	4.0	4.2

Source: World Trade Organization 1999, tables II.3 and II.4.

Note: If trade among the members of the European Union is treated as intratrade, the share of trade from the other countries rises dramatically. For example, for 1993, the share becomes 12 percent for Japan and 10 percent for the six Asian traders.

[a]The six Asian traders include Hong Kong, Taiwan, Thailand, South Korea, Singapore, and Malaysia.

into France only through the town of Poitiers, an inland town many miles from the nearest port and with very few customs officers (World Bank 1987, 141). Further, provisions in national trade laws relating to unfair trade—where the criteria determining unfair trade were again a matter of administrative discretion—were extensively employed to deter foreign competition. In the United States, for example, where the International Trade Commission had previously been asked to investigate no more than a trickle of cases alleging that imports were subsidized or being dumped, the number of cases investigated soared to well over six hundred in 1979–85.[9] (While a great many cases were finally dismissed or withdrawn, the official acceptance of formal complaints by domestic firms was sometimes sufficient in itself to discourage foreign competitors, since cash had to be deposited to cover possible penalties that would be imposed on past trade.)

The rise in protectionist sentiment and action was general among the industrially more established countries. Protectionism, at least in sentiment, was probably more strongly expressed in the EEC, which, at the 1982 GATT ministerial meeting, showed more reluctance than others to accept any curtailment of its freedom to exercise administrative discretion or make bilateral arrangements. But the more striking features in the responses of governments in all these countries are the similarities, not the differences. The similarities are all the more striking when we recall that in certain of these countries, the sea change in economic beliefs from faith in state intervention to greater reliance on the private market was first making its appearance. Most date the first signs of this change from somewhere in the late 1970s. David Henderson, for instance, favors 1978 as the watershed year, since the governments of the countries in the Organization for Economic Cooperation and Development (OECD) then agreed to allow the free market to determine oil prices (Henderson 1998, 32). Also around this time, the United States, under the Carter administration, was moving to deregulate the air and road transport industries. In 1979, the British Conservative Party ousted the Labor Party from power, and Margaret Thatcher's government began its program of privatization. In 1980, Ronald Reagan, another convinced free market politician, was elected president in the United States. In 1982, Helmut Kohl, a Christian Democrat, took over from Helmut Schmidt, a Social Democrat, as chancellor in Germany. In France, however, the Socialist Party candidate, François Mitterand, became president in 1981. Despite the underlying shifts in economic ideas and beliefs that were already surfacing in some countries and despite the swings both ways in political leadership, the trade policy responses were everywhere much the same. Governments, whatever their professed ideological positions, responded to the worsened economic conditions with much the same blend of expediency and defensive nationalism.

The Industries That Gained Protection

It is striking that different countries acted in support of much the same industries in the 1970s and 1980s. While there were some industries that gained particular attention in one or the other country (e.g., motorcycles and semiconductors in the United States), the major industries that were successful in winning political support for protection were common. These included textiles and apparel, steel, cars, footwear, and consumer electronics. This similarity reflects the fact that industries in both regions were affected by the same shifts in competitive advantage that were taking place as a consequence of the long-term structural changes occurring in the world economy.

Leaving aside agriculture, which was effectively not part of the GATT regime at the time, the textile and apparel industry and the steel industry were the most resistant to adaptation.[10] In textiles and apparel, the industrially more established countries cooperated in converting the Long-Term Cotton Textile Arrangement into the broader Multi-Fiber Arrangement in 1974. When the arrangement was renewed in 1977, Britain and France were among the most active members of EEC pressing for considerably more stringent terms. For the steel industry in both the United States and Western Europe, a similar pattern of quantitative import restrictions and market management emerged over the years.

Faced with the growth of an efficient steel industry in more recently industrializing countries and with a mature market for steel products at home, the steel industries in the United States and Western Europe experienced recurrent bouts of excess capacity. By the late 1960s, the United States had already negotiated voluntary export restraints with Japan and Western European countries, and the latter had done the same with Japan. In the face of strong steel demand, the United States allowed these restraints to lapse in 1974. But when the steel market again became depressed in 1977, the Carter administration introduced the "trigger price mechanism," and the EEC quickly followed suit with a similar device. (The mechanism established a "fair value" import-reference price. Imports below that price were subject to prompt antidumping investigation.) The Reagan administration scrapped this mechanism in 1982, but as the economy was barely recovering from recession and as the U.S. dollar continued to rise against other currencies, the U.S. steel industry again sought the restoration of quantitative restrictions. As a tactical move, the industry lodged a slew of cases against European producers, alleging unfair trade on grounds of subsidies or dumping. The EEC threatened retaliation. Despite its free market convictions, the U.S. administration was obliged to negotiate voluntary export restrictions with European producers, and the U.S. steel producers thereafter dropped their unfair-trade cases. When the EEC cut its steel imports in 1983 to make room for the output formerly exported to the United States, the U.S. industry complained that Japanese exports formerly directed to Europe were now being diverted to the United States. The upshot in 1984 was a tighter system of quotas, covering most exporting countries and administered by the governments of the industrially more established countries on both sides of the Atlantic.[11] The managed market for steel, like that for textiles and apparel, became a semipermanent feature of international trade policy. It differed, however, from the restriction on trade in textiles and apparel, because it managed trade among the North American and Western European countries as well as trade between these regions and both Japan and the industrializing, developing countries.

This retreat into semipermanent protection was by no means true of all the industries that won some measure of protectionist support at the time. In some industries, adaptation to the underlying change in competitive conditions was taking place through the “internationalization” of production, which gradually sapped protectionist demands. The response of the U.S. car industry, for example, was to intensify its strategy of dispersing its production of car components and car assembly among different countries to take maximum advantage of production cost differentials and market proximity; it also entered into alliances with Japanese manufacturers to benefit from their managerial and technological strengths. (Japanese manufacturers, for their part, set up production in North America and Western Europe to insure against possible future trade restrictions.) In both North America and Western Europe, the outsourcing of production by major manufacturers in the footwear and consumer electronics industries was taking place simultaneously with campaigns by the same industries to win protection for domestic manufacture of the same products. Vincent Cable describes how, in Britain, the divided interests of the consumer electronics industry between companies seeking to preserve the operations of existing plants at home and companies already contracting the production of their brand-name products to manufacturers in Southeast Asia weakened the industry’s determination to lobby for protection. As a nice twist, Japanese companies that had set up production in Britain joined with British companies in seeking protection from external competitors. The Japanese access through Britain to other markets in the European Economic Community did not go down well with the latter’s consumer electronics firms, some of whom were outsourcing production to competing manufacturers in other Southeast Asian countries (see Cable 1983, 209–13). Thus, economic and commercial forces at work in some industries were causing structural adjustment through the internationalization of production. While protectionist measures may have slowed down the pace of such adjustment, the adjustment eroded the demand for the measures themselves.

A GATT Wounded but Alive

The turbulent economic events of the 1970s and 1980s put an end to the sense of security and predictability that had marked the economic climate of the previous two decades. A heightened mood of commercial uncertainty and social insecurity in the industrially more established countries generated a demand for some form of action to relieve conditions being experienced by businesses and labor, and this demand merged with the ever present nationalist sentiment to channel much of the political response into protectionist trade measures. While governments since the end of the Second World War had made substantial advances in establishing rules for the orderly conduct of trade relations, the less benign economic circumstances that prevailed placed the rules under considerable stress. GATT could not accommodate nationalist political reactions to the domestic effects of serious recessions, slower economic growth, wide swings in exchange rates, or rapid structural changes.

Nevertheless, by comparison with the interwar years, when all these adverse circumstances were also present, multilateral trade cooperation was in much better shape. GATT did not stop the industrially more established countries from taking unilateral protectionist measures. But these countries did so in ways that, at least formally, did not break GATT rules; they resorted to the informal measures of voluntary export restraints or orderly marketing agreements and the use–or, better said, abuse–of national trade legislation consistent with GATT. Moreover, in relations among themselves, these countries–despite often shrill language of mutual accusations, threats, and counterthreats–were circumspect in introducing new, protectionist measures directed against the export of manufactures to each other. With the major exception of the steel industry, they did not attempt to negotiate quota-type restrictions with each other, and the number of unfair-trade cases that actually resulted in protectionist measures was quite modest. In relations among these core countries, GATT rules continued to be largely observed, both formally and in spirit.

In trade relations with Japan, the newly industrializing countries of Southeast Asia, and the other industrializing countries of Asia and Latin America, both the quota-type restrictions and the national unfair-trade legislation were more frequently employed. It is obvious that by comparison with the bargaining power that the EEC and the United States exercised in their relations with each other, the position of these other countries relative to either the EEC or the United States was weak. From the earliest days of textile restrictions in the late 1950s, Japan had become familiar with the negotiation of voluntary export restraints or orderly marketing agreements. These were applied to the steel industry in the 1960s. With its military dependence on the United States and its limited imports relative to its exports in its trade with the EEC and the United States, Japan was in a weak position to retaliate against discriminatory action. In the later 1970s and early 1980s, as I have already noted, the use of voluntary export restraints spread to other industries and to other rapidly industrializing countries in Southeast Asia. Particularly in the trade in steel, other developing countries elsewhere were also drawn into the net. Protectionist measures under unfair-trade legislation likewise fell disproportionately on the developing countries. In the United States, for example, more than one-third of the cases investigated under the legislation dealing with subsidies or dumping between 1979 and 1985 were directed against exports of manufactures from developing countries (see Destler 1986, 246–341). This number far exceeded their share of total manufactured imports into the United States.

Thus, the weaknesses of the multilateral trade regime revealed by the events of the 1970s and 1980s were twofold. First, the rules of the regime were not proof against nationalist, protectionist action in times of general economic difficulty. Second, the rules presumed a greater willingness than actually existed on the part of the industrially more established countries to make adjustments that would readily make room in international trade for the fast-growing, newly industrializing countries. That the rules were evaded or abused did not, however, undermine the regime, because the countries most sinned against were individually in a weak bargaining position. These countries had to accept the arbitrary behavior of their main trading partners. It was not a condition of their trading relations that their trading partners would behave in the predictable and orderly way promised in the rules.

THE AMERICAN ADOPTION OF AN "AGGRESSIVE" TRADE POLICY

Because the United States was the leading economic power in the 1970s and 1980s, the U.S. response to rising protectionist and nationalist sentiment was particularly important for multilateral trade cooperation at that time. Reflecting domestic political cross-currents, the U.S. response was complex. Besides yielding, often reluctantly, to demands for protection from import competition, U.S. administrations took other, distinctly different and even contradictory lines of action. Mainly to gain greater access to foreign markets, but partly also as a counteroffensive against the protectionist drift, the United States initiated two further rounds of multilateral trade negotiations, the Tokyo Round and the Uruguay Round. The former has just been discussed, and the latter is the subject of chapter 9. It is enough to say here that they helped to rally commercial interests engaged in foreign trade to the cause of resisting a retreat from an open trade policy. At the same time, however, the U.S. Congress developed another course of action, which it pressed on successive administrations to follow: a set of measures that sought to penalize other countries that were engaging in practices that "unreasonably" or "unjustifiably" harmed American trade. These countries were to cease the harmful practices or be penalized for failure to do so.[12]

The U.S. Congress first embodied this approach in Section 301 of the 1974 Trade Act. Congress gave the president power to penalize other countries that were deemed to be engaging in unfair trade practices; these practices included not only subsidies and dumping, which were already covered by other sections of the Trade Act, but also other practices, such as those arising out of government procurement, restrictive business practices, or the administration of exchange and import controls. In the Trade Agreement Act of 1979, the procedures under Section 301 were tightened. Never satisfied that successive administrations were applying the provisions of Section 301 forcefully enough, Congress went further in the Omnibus Trade and Competitiveness Act of 1988. It added provisions, known as "super" 301, that required the president to identify a priority list of unfair trade practices allegedly used in particular countries that would have to be eliminated within a specified time period on pain of retaliatory action. It also included a new provision specifying that the failure of a trading partner to recognize the intellectual property rights of a U.S. corporation or citizen was to be regarded as an unfair trade practice.

To some degree, the congressional action was an understandable expression of irritation with the trade conduct of some other countries. There is no question that, like the United States, other countries were often remiss in living up to the trade concessions and supporting rules that they had agreed to in past negotiations. There is no doubt, too, that the procedures established in GATT for dispute settlement and enforcement of obligations were weak and often ineffective; countries could with impunity easily delay or even ignore rulings made in GATT. Congress could be seen as legitimately expressing its frustration with the inadequate means of enforcement of GATT rules. Section 301 was, in fact, carefully drafted to be consistent with U.S. obligations under GATT. Other countries could not claim that the United States was legally overreaching itself. Section 301 required that the administration respect the procedures of GATT in any dispute with another country. It could technically be argued that the United States was just asking other countries to abide by their GATT obligations; the other countries had nothing to fear if they behaved correctly.

However, this is too legalistic a view. Other countries resented the evident attempt to bring pressure on them through procedures established in the U.S. Congress. Though nominally supplementing GATT procedures, the acts set up the United States as both prosecutor and judge of other countries concerning any infractions of GATT rules. These acts singled out individual countries for particular political and diplomatic attention by the United States, and they accordingly invested trade disputes with a broader political significance. It was, moreover, a one-sided process, since infractions by the United States were obviously not to be included. This appeared as an incipient reversion by the leading trading nation to the unilateral use of power for advancing its own interest. This expression of unilateralism made Section 301 a threat to multilateral trade cooperation.

This shift in trade policy was not chosen deliberately by U.S. administrations. Successive administrations have sought to deflect Congress from demanding action to protect import-competing industries, by channeling its trade legislation into market-opening measures; such legislation was ostensibly less damaging to trade cooperation. Moreover, in executing the trade laws, the successive administrations have generally been more circumspect than Congress would have wanted them to be. Though U.S. trade representatives have generally adopted an aggressive stance in their public utterances about the trade policies of other countries, they have been more restrained in their actions.

In practice, the United States has made numerous allegations of unfair trade practices by other countries under these laws, and it has sought to have the practices suspended or altered. In a number of the cases raised since the mid-1970s, the United States succeeded in obtaining some accommodating change from its trading partner, thus improving market access for the exports of specific industries or corporations. From a national point of view, however, the quantitative gains in trade appear to have been quite modest. They pale almost into insignificance when compared with the gains won through multilateral trade negotiations.[13]

U.S. administrations in the 1970s and 1980s thus walked a tightrope between congressional demands that they act unilaterally and aggressively and the knowledge that such action attacked the foundations of multilateral trade cooperation. The U.S. Congress, for its part, felt much less constrained by the treaty obligations entered into by past or current administrations. In other words, it was less sensitive to the reciprocal nature of trade relations with other countries. In its deliberations, the center of gravity moved much closer to the states and electoral districts from which its members came; this was especially true in the House of Representatives where, as Tip O'Neill, a former Speaker of the House, so succinctly said, " all politics is local" (O'Neill 1994).

The more assertive stance of Congress in the 1970s and 1980s was facilitated by the success of reforms within the legislative body that were quite unrelated to trade. I. M. Destler has described how a new generation of politicians in Congress in the 1970s successfully challenged the concentration of power and the secretive backroom politics of the old committee system; but in successfully decentralizing power and making procedures more open, they also made individual legislators more vulnerable to pressures from their constituents for protectionist measures (Destler 1986, 59–62). Senator John Danforth observed in 1983, "The small number of experienced Washington players in the executive branch and on the Hill who once dominated U.S. trade policy have been faced with growing pressure from forces less knowledgeable or less convinced by our traditional open trade philosophy" (Danforth 1983, 46). This pressure was another manifestation of the tension that always exists between nationalist sentiment and the necessary constraints placed on it by a functioning and mutually advantageous regime of trade cooperation.

RELATIONS BETWEEN THE UNITED STATES AND JAPAN

The trade tensions that arose in the 1970s and 1980s found their most acute expression in relations between the United States and Japan. American dissatisfaction with these relations gave rise to a voluminous flow of speeches, articles, and books in which national sentiment often won the battle over dispassionate analysis. Underlying sources of the explosion of dissatisfaction lay in general economic circumstances discussed earlier in this chapter—poor performance of domestic output and employment, exchange rate swings, and problems of structural adaptation. But the particular focus on Japan had additional, more specific reasons. Many American multinational corporations felt frustration from having failed to gain a share of the large and lucrative Japanese market. It was a high-income market that was second in size only to the United States, but despite some notable exceptions, major industries (e.g., the automotive industry) had succeeded neither in penetrating the market with their exports nor in establishing subsidiaries there. Further, in some technologically new industries, such as the semiconductor industry, which American companies had been the first to develop commercially, Japanese manufacturers appeared to be taking the lead internationally. The belief was that their success depended, in no small part, on Japanese industrial policy. It was alleged that they enjoyed a sheltered market at home that not only enabled them to establish themselves in the first place but also allowed them to pursue a dual pricing system at home and abroad. Finally, the United States began to run a huge trade deficit in the early 1980s, whereas Japan recorded a surplus of roughly comparable magnitude. This only confirmed many people in their belief that while the United States pursued an open trade policy, Japan did not.[14] In the political mood of the time, successive U.S. administrations felt compelled to enter into a series of negotiations with Japanese governments, intended to improve access to the latter's markets.

The historical background to Japanese-American trade relations is of some importance in explaining these developments. In its years of remarkable recovery and growth from the 1950s to the 1980s, Japan pursued a pattern of growth that was strongly export oriented, and it directed a substantial part of its exports to the United States. American manufactures were faced with a competitor that was technologically advanced and whose firms appeared to be superior in their production and management methods. The Japanese impact on some U.S. markets was dramatic. Japanese cars, for instance, increased their share of the U.S. market from 4 percent in 1970 to 21 percent in 1980, and if sales of cars manufactured in plants opened up in the United States are included, the share rose to 30 percent in 1989.

The behavior of Japanese imports of manufactures was, however, quite different. Being poor in natural resources, Japan was a large importer of raw materials, fuel, and some foodstuffs; manufactures accordingly did not dominate imports as they did exports. Moreover, the intra-industry pattern of trade that has characterized relations among the other industrialized countries appeared weak in the case of Japan; the exchange of highly specialized and differentiated products from within the same industry occurred less. While this may have reflected differences in Japan's industrial structure, it was taken as further circumstantial evidence supporting the view that there were barriers impeding imports of manufactures into Japan.

These circumstances laid Japan open to the charge that it was pursuing mercantilist policies–taking advantage of open markets abroad for its exports, but restricting access for imports into its own markets. In the 1970s and earlier, the blame for the inability to gain access to the Japanese market was laid mainly at the door of familiar trade barriers, initially tariffs and import restrictions, latterly customs rules and administration. But Japan had participated fully in the multilateral negotiations held under GATT, and as its tariffs were reduced to minimal levels and its customs practices were brought into conformity with strengthened GATT rules, the diagnosis shifted. Opinion in the United States then came to see the barriers to trade as arising not at ports of entry but from within the domestic economy. They were viewed as being generated by a range of governmental and business practices that regulated the conduct of commercial affairs in Japan. These were identified in many different specific forms and were asserted to impede market access for foreign enterprises both through the sale of imported goods or services and through the establishment of subsidiaries. They ran the gamut from government licensing arrangements or administrative guidance to manufacturers' control over distribution channels or cross shareholding among enterprises.[15]

These internal obstacles to trade and investment lay outside the purview of GATT, and the response of U.S. administrations was to initiate bilateral negotiations directly with Japan. The Market-Oriented Sector-Specific (MOSS) negotiations of 1985–86 were the first in a series of attempts to reach agreement on the removal of impediments to competition in particular sectors.[16] The Semi-Conductor Trade Agreement of 1986 was a similar attempt to gain for American producers greater access to a specific sector. Such sector-specific negotiations explored possible impediments at a level of great detail and were necessarily tortuously slow. They were investigating long-standing governmental and business practices that were, for the most part, rooted in the market structure and institutional conditions within which Japanese business was conducted, and while structural relations and institutional conditions can change, they generally change only slowly and in response to internally generated pressures.

In a further attempt to alleviate trade tensions between Japan and the United States, the Structural Impediment Initiative was launched in 1989–90. This initiative addressed macroeconomic conditions in both countries, and it countered the popular view that Japanese mercantilism was clearly proven by the huge trade deficit that the United States ran mostly with Japan and by the equally large trade surplus that Japan ran mostly with the United States. Though it seemed intuitively correct to many, the trade imbalances had nothing to do with any differences between the United States and Japan in the degree of openness of their economies. Japan's surpluses reflected the persistent tendency for domestic saving to exceed domestic investment, leaving a balance to be invested abroad. (In other words, to absorb the earnings from exports of goods and services, Japan purchased foreign assets as well as imports of goods and services.) Conversely, the United States found domestic saving insufficient to finance domestic investment and borrowed from abroad, and this capital inflow financed the deficit in the trade balance. The solution to the trade imbalances lay in macroeconomic policies, not in trade measures. It was hoped that if the imbalances could be reduced, some of the heat might be taken out of the American resentment stirred up by the persistent trade deficit with Japan. The Structural Impediment Initiative also had the advantage that it had an air of reciprocity about it: Japan was to encourage higher levels of domestic consumption (and so raise imports and reduce saving), and the United States was to reduce its chronic budget deficits (and so raise savings and reduce its trade deficit). In 1993, yet another endeavor was launched in the Framework for a New Economic Partnership, which was something of a hybrid arrangement containing joint macroeconomic aims as well as sectoral and structural programs.

These bilateral negotiations were viewed by other countries as a possible threat to multilateral trade cooperation. Despite reassurances by the United States that any concessions made by Japan would be extended on a most-favored-nation basis, the EEC feared that the United States might gain preferential treatment for particular goods or services. Thus, in resisting U.S. pressures, Japan had silent allies in other trading partners of the United States. The larger concern, however, was that the bilateral negotiations appeared to signal a loss of confidence by the leading trading nation in the effectiveness of the multilateral trade regime.

In sum, the three key elements in U.S.-Japanese trade relations in the 1970s and 1980s were the success of Japanese manufacturers in the American market, the difficulty experienced by major American manufacturers in penetrating the Japanese market, and the huge U.S. trade deficit with Japan. Together, these elements created what appeared to be a lack of reciprocity. But since perceived reciprocity is the political condition of trade cooperation, in its absence, American manufacturers were able to win substantial political support for unilateral action against Japan.

The actual commercial benefit derived from the market-opening measures wrested from Japan by such action appears to have been quite limited. After reviewing agreements reached between 1980 and 1995, Theresa Greaney found that their effects on actual trade flows were generally modest and that where the effect was significantly positive, as in autos or semiconductors, it was sometimes so at the cost of trade diversion.[17] Individual manufacturing firms doubtless benefited substantially, but the gain in foreign trade for the nation as a whole was slight and was diminished by the cost of unilateral action in lessening the general trust in multilaterally agreed rules of conduct.

In the latter part of the 1990s, U.S.-Japanese trade relations receded from center stage in Washington, D.C. Certainly, the United States and Japan had trade disputes, which one or the other took to the WTO Dispute Settlement Body; certainly, the United States continued to press for more market-opening measures, negotiating agreements that set out monitoring and enforcement arrangements for changes in Japanese laws, regulations, and practices.[18] But in these years when American industry had entered a period of exceptional economic growth and prosperity while that of Japan languished, the political concern with the perceived lack of reciprocity fell away, even though the U.S. trade deficit did not diminish.[19]