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INTERVIEW

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Interview with Harris P. Dawson, US Commercial Attaché in the Federal Republic of Germany

Not so long ago, Senator Dirksen, Republican, and his Democrat colleague, Senator Hartke, have placed before the US Senate a complete bunch of new restrictive bills on imports, intending to cut all imports by laying down reduced quotas. They were to shield all the branches of the US economy that have to compete keenly in the world's markets, against the impact of cheap foreign goods. These bills came not entirely surprising, as immediately after the Kennedy Round a number of commentators were actuated by the fear lest the agreed tariff cuts should mobilise the protectionists in the US. INTERECONOMICS had occasion to talk about new problems of American trade policy with the Commercial Attaché Harris P. Dawson.

QUESTION: Mr Dawson, the conclusion of the Kennedy Round in the middle of this year was generally regarded as a logical continuation of the liberal trade policy of the United States, which was directed towards an increase of world trade and growing international division of labour. What effects will the agreements of the Kennedy Round have on the United States' total exports and the exports of individual industries?

ANSWER: At this point it is not possible to state any absolute figure or percentage by which US total exports, or exports of individual industries, will increase as a result of the Kennedy Round. Since the tariff cuts are phased over a five year period, the trade adjustments will be gradual.

On the basis of trade coverage, the United States received tariff concessions of mostly 35 per cent reductions on about $ 7 billion of exports. Almost another $ 1 billion were bound in a duty-free status, so that the total package runs close to $ 8 billion. These concessions are spread proportionately among the major export markets of the United States. Over $ 5 billion of exports are subject to concessions in the European Economic Community, the EFTA countries, and Japan. Another $ 1.3 billion will benefit by concessions made by Canada, with the remainder spread out among a number of smaller countries. Our trading partners will of course benefit in like amounts by similar cuts in tariffs in their export markets.

The main product areas in which US exports are expected to expand as a result of the Kennedy Round are: Production machinery, automobiles and automobile parts, aircraft, scientific equipment, photo-equipment, finished wood, paper and paper products, and chemicals.

QUESTION: Apart from the industrial sector farming exports play a major part just in the United States. In the course of the negotiations on tariff reductions the USA never left any room for doubt that a conclusion of the Kennedy Round without facilitating farming exports would be indiscussible. What repercussions will the agreements finally reached have on exports of agricultural products from the United States?

ANSWER: As regards exports of agricultural products from the United States, it is likewise not possible at this stage to forecast what the effect of the Kennedy Round agreements will be. Originally the United States had re-

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spent 27 years in US Government service, of which almost one half has been overseas. He is an economist and holds two degrees from an American university. In addition to his three years in West Germany as Commercial Attaché, he served in Pakistan, Greece, Panama, and had several assignments in Washington. He was born in Alabama in 1911 and from 1931-1936 studied economics at Dartmouth College and its Graduate School of Business Administration. Moreover, he attended John Hopkins School of Advanced International Studies specialising in economics of developing countries.

quested in the agricultural negotiations broad trade coverage and deep tariff cuts, similar to those for industrial products. However, this did not prove negotiable. The results of the agricultural negotiations are therefore considerably more modest than the results achieved in industry. The EEC made tariff cuts on agricultural items of a trade value to the United States of over $ 200 million. Agricultural concessions were obtained by the United States from Japan, Canada, the UK, the Nordic Countries and Switzerland. These tangible benefits from the Kennedy Round apply especially to US trade in fruits and vegetables, oilseeds, tobacco, variety meats, tallow, and a number of other products. The concessions granted by the other countries cover more than $ 900 million in imports of such products from the United States, based on 1964 figures. On agricultural products accounting for over $ 700 million—in which the United States has an important export interest—duties were cut by an average of more than 40 per cent.

The Kennedy Round also includes a new grains arrangement which will provide additional price insurance to all wheat producers and which contains significant food aid provisions. Apart from their intrinsic humanitarian worth, these provisions should open new commercial outlets for wheat. Concessions won at Geneva will mean increased foreign markets for a number of United States farm commodities. Agricultural exports by the United States are on an upward trend in any case and would increase had there been no Kennedy Round. However, the rate of increase will be faster because of the successes achieved by negotiation.

QUESTION: On the whole it may be assumed that the agreements of the Kennedy Round would cause a strong increase of exports. Is there—in this connection—any risk that thus other export promotion measures will lose in importance?

ANSWER: No, and it is my personal opinion that exactly the reverse will occur. As tariff barriers are lowered, larger and larger segments of hitherto protected domestic markets in all countries participating in the Kennedy Round will be opened to foreign competition. I suspect that this increase in world trade will result in an increase in competitive export promotional activities by all countries concerned, mainly in the area of trade fairs and distribution of information about newly competitive products.

QUESTION: US exports will increase by the planned tariff reductions. Imports will also grow considerably by the rising competitiveness of foreign industries. According to available estimates an increase of imports to the amount of $ 3.6 billion may be anticipated. Which industries will mainly be affected by these higher imports and possibly seriously impaired?

ANSWER: I have no knowledge of any United States industries that will be seriously impaired by the tariff cuts resulting from the Kennedy Round. In line with the action taken by the other countries participating in the Kennedy Round, the United States removed a number of articles from negotiation or made less than 50 per cent cuts when it judged such a reduction was called for in the light of their import sensitivity. The items excluded from the cuts of the US tariff are basically those which are experiencing severe import competition and those which would be likely to suffer adversely if they were subject to a 50 per cent reduction. Indeed, under US legislation, our trade negotiators were barred from making any tariff cuts on US imports which would seriously injure an existing domestic industry; I am sure European negotiators worked under similar instructions. I would also add that since the tariff cuts are phased over a five year period, industries will have ample time to make appropriate adjustments.

QUESTION: In view of keener competition to be anticipated, some American industries demand more vigorously than hitherto protectionist measures as a defence against foreign competition. According to President Johnson's latest statements their initiative has been warded off for the time being. Mr Dawson, do you still see any real chances for a growing protectionism?

ANSWER: I am frankly optimistic about the ability of the United States to maintain the liberal trade policy which it has consistently followed since the early 1930s. Your readers will be aware that in addition to the statements by President Johnson which you cite, the Congress itself has recently decided to postpone action for the time being on most of the protectionist bills before it, the one on textiles being the chief exception.

Of course, these bills may be introduced again in the next session of Congress. To some extent their future will depend upon what happens in other countries which are major trading partners of the United States. If other countries adopt protectionist measures, it will be more difficult to combat protectionism in the United States.

Many members of the President's cabinet have recently spoken against protectionism. Secretary of Commerce Alexander B. Trowbridge stated before the Senate Finance Committee that the trading relations of the United States with the rest of the world would undergo a serious setback if the recently proposed protectionist measures were approved. Enactment of these bills would provoke very serious counter-measures against United States exports. Import quotas—as opposed to embargoes or high tariffs—do preserve some portion of the domestic market for foreign goods, he said. However, this would not avoid retaliatory measures by other countries against US exports. Since the United States must buy if it is to sell to the rest of the world, it is clear

that restrictions on imports should be imposed only in exceptional cases.

QUESTION: Although President Johnson opposes the introduction of protectionist measures, he simultaneously promised the threatened industries a stronger government support in the shape of tax reductions, loans at low rates of interest or technical aid. Will such measures, aiming at the maintenance of incompetitive industries, not wreck the agreements of the Kennedy Round?

ANSWER: It would not harm the agreements made under the Kennedy Round. Any such assistance that is provided would be temporary in nature and would be designed to aid in the adjustment process. We have no intention of subsidising and maintaining uncompetitive industries.

QUESTION: Apart from reasons for import restrictions concerning individual industries another cause for the import reduction might be stated: According to the results of the first six months of 1967 a balance-of-payments deficit of $ 2.2 billion, or even $ 3.9 billion, is being anticipated. Both figures exceed those of the preceding year considerably. Is there any possibility that in the United States for considerations of balance-of-payments policies a limitation of imports must be advocated in the near future?

ANSWER: Again, I would like to emphasise here the continuity of the liberal trade policy which my Government has been consistently following for the last three decades. It is our official view, and one which we have up to now been able to carry out, that the direction of our approach toward barriers to international trade should be toward increasing liberalisation and not in the opposite direction.

I also wish to point out that it is not in the area of trade where we face our major balance-of-payments problems. Indeed, we had a trade surplus of $ 3.8 billion in 1966 and a surplus of about $ 2.1 billion for the first half of 1967. It is rather in such areas as tourist expenditures, military support costs abroad, foreign aid and investment flows where we are currently having difficulties. The Administration is, of course, well aware of these difficulties and has developed a number of programs to diminish the deficits in these areas.

QUESTION: However, don't you regard the intensified Buy-American campaigns as indications of trade restrictions which possibly might be extended later?

ANSWER: I personally am unaware of any "intensified Buy-American campaigns" recently. This point is, of course, frequently raised with me by German businessmen and German Government officials, but I have been unable to get any details about new pressures in this direction. I have been in touch with officials of my Government in Washington and they, too, are unaware of any increase in Buy-American activities, either in legislation or in specific cases arising under such legislation.

In fact, the price differential favourable to US goods for US Government procurement under the Buy-American Act has gone down considerably during the last three decades, from 25 per cent in the 1930s to a variable differential of 6 per cent to 12 per cent today. I would say the trend is rather the reverse of what you indicate.

QUESTION: During the last years growing uneasiness could be noticed in Europe concerning the high investments made by the United States. High tariff protection of some European states time and again was mentioned as a reason for these investment activities. The planned tariff reduction eliminates this obstacle to a large extent. Will this then involve a decrease of US investments in Europe?

ANSWER: It may be assumed that the rate of US investment in Europe will decrease in the next few years for various reasons. One of these is the planned reduction of European tariffs as a result of the Kennedy Round. In addition, as a result of the general economic slowdown in Europe, American enterprises will be less inclined to set up their own production facilities in Europe or to acquire existing European enterprises or participations therein. Also, a large proportion of the US enterprises interested in establishing their own operations inside the EEC tariff walls have already done so in recent years. It may be expected that the expansion of existing US production facilities in Europe will be on the decline as compared with previous years when the European economy was booming.

A final factor I have mentioned earlier. The US Government is not encouraging US investment in Europe, and has taken a number of measures during the last few years to implement this policy. One such action is the Interest Equalisation Tax which is designed to discourage the flow of funds from the US. Another measure is the voluntary balance-of-payments program designed to curtail US investments abroad.

QUESTION: Many of those concerned with economic policy regard the Kennedy Round as a first step only towards a further trade liberalisation. Mr Dawson, do you believe that other still existing trade obstacles (e.g. limitations of the US Eastern trade) can be reduced in the next future?

ANSWER: This is, of course, a difficult question. Any answer on my part would be highly speculative. I can only affirm the liberal direction of my Government's trade policies in the past and express the hope that if other trading countries pursue similar policies that the Kennedy Round will be another major step toward further trade liberalisation. Non-tariff trade barriers will certainly be a subject of further discussion. With reference to US trade with Eastern Europe, the controls that are imposed are based on strategic considerations; this represents a different kind of trade problem.