

Distr.:
RESTRICTED

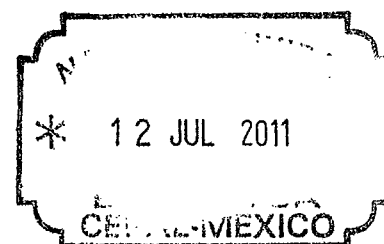
LC/MEX/R.52
15 January 1987

ORIGINAL: ENGLISH

E C L A C

Economic Commission for Latin America and the Caribbean

U.S. FOREIGN ECONOMIC POLICY: THE DYNAMICS OF THE DEBATE



This document was prepared by Mr. Robert Pastor, Professor, Department of Political Science, Emory University, Atlanta, Georgia, U.S.A., as consultant to the Office of ECLAC in Mexico. The views expressed in this paper are of the exclusive responsibility of the author and do not necessarily reflect the opinion of the Organization.

"One of the disadvantages of the American system of democracy is that it is sometimes hard to find where effective power lies."

Clement Atlee
Prime Minister of Great Britain, 1953

U.S. Foreign Economic Policy:
The Dynamics of the Debate

TABLE OF CONTENTS

	<u>PAGE</u>
I. Introduction	1
II. Definitions	3
II.1 By Issue	5
II.2 By Purpose	5
II.3 By Destination	6
II.4 By Decision Mode	7
II.5 By Principal Decision-Making Arena	8
III. U.S. Foreign Economic Policy: Three Cases	10
III.1 U.S. Trade Policy	12
III.1.1 Definition	12
III.1.2 The Policy-Making Process	13
III.1.3 Evolution of Trade Policy	13
III.1.3.1 Bilateralism and Reciprocity	15
III.1.3.2 Multilateralism and Tariff Reduction, 1945-67	16
III.1.3.3 Non-Tariff Barriers	18
III.2 U.S. Policy on Foreign Direct Investment	22
III.2.1 Definition	22
III.2.2 Evolution of Outward Investment Policy	25
III.3 U.S. Foreign Aid Policy	31
III.3.1 Definition and Purpose	31

	<u>Page</u>
III.3.2 Evolution of U.S. Aid Policy	33
IV, The Question of Coherence and Consistency	37
IV.1 Trade Policy	37
IV.2 The Incoherence of U.S. Investment Policy	43
IV.3 The Many Consistencies of Aid Policy	45
IV.4 The Overall Coherence of U.S. Foreign Economic Policy	46
V. Current Issues and Debates	47
V.1 U.S. Trade Policy: Trends and Issues	48
V.1.1 Increasing Importance of Trade	48
(1) Issue: Membership	49
(2) Issue: Adjustment	50
(3) Issue: VERA's	50
V.1.2 Convergence of Factor Prices	51
(4) Issue: Defining Subsidies	51
V.1.3 Changing Composition of World Trade	52
(5) Issue: Services	52
(6) Issue: Trademarks and Intellectual Property	53
V.1.4 The Newly-Industrialized Countries (NIC's)	53
(7) Issue: Graduation	53
(8) Issue: Free-Trade Areas	54
V.1.5 Convergence of Trade and Investment	54
(9) Issue: Industrial and Sectoral Policies	55
V.2 U.S. Investment Policy: Trends and Issues	55

	<u>Page</u>
V.2.1 Diminished Importance	56
(1) Issue: The Nature of Protection	57
V.2.2 Geographical and Sectoral Shifts	57
(2) Issue: National Treatment	59
(3) Issue: Encouragement or Neutrality	60
V.2.3 Regulation	61
(4) Issue: Conflicts of Jurisdiction	61
(5) Issue: Taxes	62
V.3 U.S. Aid Policy: Issues and Trends	62
V.3.1 Bilateral Aid	62
(1) Issue: Distribution	62
V.3.2 International Development Banks	63
(2) Issue: The Future of the Banks	63
V.3.3 Private Sector Aid	63
(3) Mixed Credits and Purposes	63
VI. Policy Implications	64
VI.1 Observing and Monitoring the Debate	66
VI.2 Understanding the Debate	67
VI.2.1 Ideas/Consensual Values	68
-- (1) For Trade Policy	68
-- (2) For Investment Policy	70
-- (3) For U.S. Aid Policy	71
VI.2.2 Interests	72
VI.2.3 The Mechanics of Policy-Making	74
VI.2.4 Events	78

	<u>Page</u>
VI.3 A Strategy	79
VI.3.1 Resident Fellows	79
VI.3.2 Advisory Group	80
VI.3.3 Lobbyists	81
VI.3.4 Substantive Trade-Offs	81
Selected Bibliography	84
The Author	86

U.S. Foreign Economic Policy:
The Dynamics of the Debate

Robert A. Pastor

I. Introduction

Despite the considerable impact that U.S. foreign economic policy exerts on Latin America, there have been few systematic efforts by Latin Americans to understand either the policy or the process by which it is made. To many Latin American scholars and policy-makers, U.S. foreign economic policy is made by multinational corporations with the purpose of exploiting Latin America and imposing dependency. The possibility of influencing the policy from the outside is thought so unlikely that it is not even considered.¹

The truth is different: most U.S. policies are the result of a debate where interests and ideas compete. The essence of the debate on U.S. foreign economic policy is whether the U.S. will protect the interests of particular industries and unions, or whether it will defend the general interest of the U.S. in a relatively free and competitive global economic system.² While

¹ For one example, see Aldo Ferrer, "La America Latina y los Países Capitalistas Desarrollados: Una Perspectiva del Modelo Centro-Periferia," y Osvaldo Sunkel, "La Naturaleza de la Dependencia Latinoamericana," en Rene Villareal, comp., Economía Internacional (Mexico: Fondo de Cultura Económica, 1979).

² For two good studies of U.S. foreign economic policy and the process by which it is made, see I. M. Destler, Making Foreign Economic Policy (Washington, D. C.: Brookings Institution, 1980); and Stephen D. Cohen, The Making of United

this debate between domestic and international interests has not changed much, the process by which the issues are debated has changed quite definitively. The debate was closed for much of U.S. history, but a series of reforms in the mid-1970s in Congress opened crucial aspects of the debate to the public and to other interested parties, including foreign governments and groups.³

In these debates, U.S. policy-makers try to take into account the concerns of other governments, but whether they succeed depends in part on whether other governments effectively communicate their concerns. The process as well as the policy are poorly served if foreign governments do not use this opportunity. If one believes that U.S. prosperity is increasingly tied to the prosperity of its trading partners, then one would conclude that U.S. policy should reflect their concerns as well as domestic interests.

The purpose of this monograph is to define and explain U.S. foreign economic policy in a manner that will help one to see the causes of the policy and the options and opportunities for changing it.

--In part II, we shall define U.S. foreign economic

States International Economic Policy: Principles, Problems, and Proposals for Reform (N.Y.: Praeger, 1977).

³ For a description of these reforms and their implications for U.S. foreign economic policy, see Leroy Rieselbach, Congressional Reform in the Seventies (Morristown, N.J.: The Learning Press, 1977); and Robert Pastor, Congress and the Politics of U.S. Foreign Economic Policy (Berkeley: University of California Press, 1980), pp. 14-25.

policy.

--In part III, we shall select from the universe of foreign economic policies those which are important to Latin America and subject to influence. The three issues are trade, foreign investment, and aid. Then, we shall define these policies and explain how U.S. policy on each of these issues has evolved over time.

--In part IV, we shall re-examine the three policies and seek to determine whether these policies can be considered coherent and consistent.

--In part V, we shall analyze the trends and current debates with regard to each of the three issues. What are the main issues on the contemporary foreign economic policy agenda?

--And finally in part VI, we will assess the policy implications of the previous analysis. How should Latin America try to monitor U.S. foreign economic policies? How could Latin America most effectively communicate its concerns in the United States during these policy debates?

II. Definitions

It is impossible to influence a government's policy without defining the policy or understanding how that government functions. In a government as complex and diffuse as that of the United States, there is no simple definition of policy nor any single formula for explaining how policy is made. The bigger problem is the opposite: there are many policies and even more formulae. The problem is to sift through the mass of information

on U.S. foreign economic policy in a manner that distinguishes between the relevant and the unimportant. The first task then is to craft a framework, a taxonomy, that will offer valid and useful distinctions between policies.

There are few important terms that are used so loosely and defined so infrequently as "U.S. foreign economic policy." This is partly because the term is used to apply to such different phenomena that it is hard to see what kind of umbrella could cover them all. The following list of foreign economic policies illustrates the dilemma: the Caribbean Basin Initiative, countervailing duties on Mexican tomatoes, U.S. interest rates, subsidies on agricultural products, a Congressional resolution on anti-trust activities, environmental rules, the debt problem, and the value of the dollar.

What these policies and issues have in common are that they relate to economic issues that affect both the domestic economy and the way the U.S. relates to the world. A more precise definition of U.S. foreign economic policy is that it encompasses the totality of U.S. government actions that affect the international economy either directly or by adjusting the way the U.S. economy relates to it.⁴

As U.S. trade and foreign investment increased absolutely and as a percentage of the gross domestic product, the number of

⁴ For a fuller elaboration of this and subsequent definitions of U.S. foreign economic policies, see Robert Pastor, Congress and the Politics of U.S. Foreign Economic Policy (Berkeley: University of California Press, 1980).

policies that were once considered wholly domestic are reduced. Today, any government policy that affects the price or the market for a product, commodity (including money), or a service, conferring either an advantage on a nation's exports or investments or a disadvantage on its imports, is a foreign economic policy.

All U.S. foreign economic policies are not equal nor are all made in similar ways. The politics of different policies also differ. Yet how does one distinguish between such diverse U.S. policies as North-South relations, economic sanctions against the U.S.S.R., sugar quotas, or local content. To understand the various debates on U.S. foreign economic policies and the determinants of each policy, one must refine the definition and understand not only how the policies are similar, but how they differ. We should begin by refining our use of different terms. A taxonomy below defines U.S. foreign economic policy in terms of issues, purposes, geographical destination, decision mode, or decision-making arena.

II.1. By Issue: The key issues of U.S. foreign economic policy include trade, investment (inward and outward), aid, money, agriculture, industry support or adjustment, energy, and new issues of interdependence like oceans, transportation, and the environment.

II.2 By Purpose: Foreign economic policy has three distinct purposes, which require different terms. "Economic diplomacy" is the use of economic instruments-- credit, aid, and

trade preferences-- for political (or security) purposes. The use of economic sanctions-- reducing aid or trade-- is economic diplomacy. "Rule-making" is the use of politics to set rules for economic transactions between a state and/or its citizens and those of another state; and it is also the totality of governmental actions whose purpose is to affect the international economy. The passage of major trade laws by Congress are examples of "rule-making." Finally, "intermestic" policies refer to those that serve both domestic and international interests. Sugar quotas or food aid (PL-480) are examples of intermestic policy; they are designed to help U.S. farmers while assisting friendly governments.

II.3 By Destination: There are also three different geographical ways to define and organize U.S. foreign economic policies: North-North, North-South, and East-West. At the core of U.S. foreign economic policies are those directed to those advanced industrialized nations of Japan and Europe (North-North) with which the United States does most of its international business. North-North policies or rules include most-favored-nation treatment in trade; national treatment of foreign investment; and the search for harmonization of domestic policies, e.g. on inflation. North-South policies are directed more toward assisting the development of the poorer countries by offering them special preferences from the North-North rules. In East-West economic policies, the U.S. gives much greater weight toward bending the rules-- in one direction or the other--

in order to defend or pursue U.S. security interests vis-a-vis the Communist countries.

II.4 By Decision Mode: There are many kinds of policies, including a Presidential speech on investment disputes, a Congressional resolution on trade preferences, a decision by the International Trade Commission, or a treaty. All policies, of course, are not equal, although they are sometimes incorrectly interpreted as if they were. For example, a Congressional resolution does not have the force of a law, although it is important as a sign of intent. Decisions by the International Trade Commission or the President are more important as policies than speeches by Administration officials.

The policy-making process, of course, varies with the policy, and a crucial first distinction is between genuine policies and signals, which Congressmen send to their constituents. For example, many analysts interpreted the introduction of the Burke-Hartke bill in 1971 as a sign the U.S. was turning toward protectionism, but the bill was introduced more as a warning than as a policy; the warning was aimed at the Europeans and Japanese to open their markets lest they prompt the U.S. to reciprocate by closing its markets. The bill also had a second purpose, to signal to American constituents that their Congressmen were looking after their interests. The signals were reasonably effective -- the Europeans and Japanese negotiated in good faith while American industries waited patiently for results. As a result, the United States passed the Trade Reform

Act of 1974, which was one of the most significant laws lowering trade barriers in U.S. history.

A second important distinction is between micro- and macro-policies. A micro-policy is each specific statement or action while a macro-policy is a general statement or an inference that one can draw about the general policy after examining all the specific micro-policies of a particular issue. For example, in the trade area, a micro-policy would be a decision on shoes by the International Trade Commission, the passage of a trade bill, or a free-trade agreement with Israel, whereas a macro-policy would be a summary statement--- perhaps by the President-- of all of U.S. trade policy. Such a statement or inference should theoretically be broad enough to include micro-policies that might seem contradictory.

II.5 By Principal Decision-Making Arena: U.S. foreign economic policy is made in many different forums, or arenas. The arenas include the Executive Branch, Congress, the Judicial Branch, private interest groups, and states and local governments. The arena in which a decision is made will help to explain how a policy is made and who makes it.

The difficulty in understanding U.S. foreign economic policy is partly due to the failure to recognize or distinguish between these five parameters. Let's take a few examples to illustrate this point.

In U.S. politics, different coalitions of leaders and

interest groups congregate around different issues. The agriculture committees in both Houses of Congress are principally responsible for agriculture issues; the Senate Finance and the House Ways and Means Committees are mainly charged with trade and tax issues; the Foreign Affairs and the Appropriations Committees have principal responsibility for foreign aid; and so on. A similar division of responsibility occurs in the Executive Branch, and among the outside interest groups that monitor each issue. To monitor, let alone to influence a policy, one needs to know the issue -- whether trade, agriculture, investment, etc.-- and the nature of the decision -- whether a law, an administrative action, or just a signal.

The politics of foreign aid often reflect the "purpose" that decision-makers impute to it, and this can be seen in the debate. For example, if the purpose of aid to El Salvador is "economic diplomacy," to defend the regime against a Communist insurrection, then the Congressmen will generally debate the issue on those political and security grounds. Some will ask whether aid is the best defense or whether there is a more appropriate way to help the government. If the aid is an "intermestic" issue, such as the PL-480 food aid, then the agriculture committees will probably dominate, and the key issues will relate more to the health of the American farmer than the food needs of the developing countries.

The decision mode and arena are key variables for understanding the relative importance of a policy and the

politics and process by which it is made. One needs first to distinguish between legislative and administrative actions, and then between signals (resolutions, bills, petitions, speeches) and policy commitments (laws, administrative decisions, treaties). Congressional bills, resolutions, speeches, or hearings are often intended more as signals to the Executive Branch, foreign governments, or local constituents than as policy; they are not commitments. In 1969, Congress defined a "national commitment" as an act that involved "affirmative action taken by the executive and legislative branches." It is easier to alter a policy while it is just a signal than after it becomes a commitment.

These five parameters are therefore useful as a framework for understanding how specific policies are made.

III. U.S. Foreign Economic Policy: Three Cases

Two criteria will be used in selecting those U.S. foreign economic policies of special relevance to Latin America: first, the importance of the policy on Latin America's development; and second, the possibility of influencing the formulation of such a policy. The rise in U.S. interest rates in 1980 probably had a more decisive effect on Latin American economies than any other recent U.S. foreign economic policy, yet neither U.S. interest rate policy nor U.S. monetary policy will be considered because these policies are highly resistant to outside influence, and indeed, are even difficult for an Administration or Congress to influence. A better use of resources is to concentrate on those

policies that can be changed.

The obvious candidates are the three issues of trade, investment, and aid policies. From the perspective of many in Latin America, U.S. foreign investment policy has been and continues to be viewed as central; indeed, there are few Latin American studies on U.S. foreign economic policy that consider anything but multinational corporations. Foreign aid subsequently came to be perceived by many Latin Americans as an instrument for coercing Latin America to welcome U.S. multinational corporations and treat them well.⁵ Finally, as Latin America emerges from its long experiment with import-substitution policies and begins to adapt its development strategy to become more export-oriented, U.S. trade policies will inevitably increase in importance.

In short, these three issues appear the most important U.S. foreign economic policies for Latin America. In this part, we shall first define each policy, and then describe how these policies have been made and how they have evolved over time. In the next section, we examine whether the policies are coherent and consistent.

⁵ See, for example, Carlos S. Malpica, El Mito de la Ayuda Exterior (Lima: Francisco Mondoa Editores, 1969); and Heraldo Munoz, "Interdependencia desigual: Las Relaciones Economicas Entre Estados Unidos y America Latina," Cuadernos Semestrales, No. 8, Mexico, C.I.D.E., 2 Semestre 1980.

III.1 U.S. Trade Policy

III.1.1 Definition. Trade policy can be defined as the sum total of actions by the state that affect the amounts, composition, and direction of its imports and exports of goods and services. From 1789 until the completion of the Kennedy Round of multilateral trade negotiations in 1967, the most important trade issue for American legislators, administrators, and negotiators was the tariff: whether and how to raise, lower, or eliminate tariffs on a particular product or group of products. However, as tariffs were lowered to an inconsequential level and world trade grew and became a significant engine of economic growth, trade policy became intertwined with virtually all economic policies.

Trade policy can be defined more precisely in terms of an import and an export policy:

Import policy: is the sum of the following four micro-policies: (1) promotion of imports (trade laws), which serve the interest of all U.S. consumers; (2) restriction of imports (tariffs, Non-Tariff Barriers), which serve the interest of some industries and unions; (3) regulations (on health, safety, or trademarks), which affect imports, although their principal purpose is to protect U.S. citizens or inventions; and (4) policies that create, maintain, or adapt elements of the entire international economic system.

Export policy: is the sum of two micro-policies:
(1) promotion of exports (trade negotiations; Ex-Im Bank;

treaties of Friendship, Cooperation, and Navigation; PL-480; and (2) restriction and regulation of exports, either for strategic purposes (strategic stockpiling, export control act; arms sales; nuclear non-proliferation) or for economic reasons (the soyabean embargo).

III.1.2 The Policy-Making Process.

U.S. trade policy is made in three arenas: in Congress, by law; in the Executive Branch, by administrative decision, executive order, or agreement; and internationally, by GATT decision or negotiated (or "voluntary") agreement. Trade laws and agreements are the most important items of trade policy; congressional resolutions, bills, and speeches are more useful in explaining the process and the politics than the policy. Nonetheless, the careful observer should watch the signals and judge whether they have elicited the correct response from the Executive Branch and the foreign government; if they fail, then the signals could become policy. ⁶

III.1.3 Evolution of Trade Policy.

With the exception of two brief periods of relatively low tariffs-- 1846-60 and 1913-22-- U.S. trade policy until 1934 was largely protectionist, dominated by a coalition of Northern industrialists and Western farmers. The tariff was the principal source of revenue for the U.S. government until the Constitution

⁶ For an elaboration of this process, see Robert Pastor, "The Cry and Sigh Syndrome: Congress and Trade Policy," in Allen Schick (ed.), Making Economic Policy in Congress (Washington, D.C.: American Enterprise Institute, 1983).

was amended to permit an income tax in 1913 (the 16th amendment). Most Americans, including President Herbert Hoover, considered the tariff "solely a domestic question in protection of our people." ⁷

By the turn of the century, trade had increased in importance to the U.S., and Congress began experimenting with various different modes of permitting trade while protecting the U.S. market. Congress, for example, authorized a "flexible tariff," and it began to delegate authority to the President to negotiate reciprocal treaties.

A decisive move toward freer trade had to await the disastrous mistake of the Smoot-Hawley Tariff of 1930, which raised U.S. tariffs to their highest rates in the twentieth century, 52.8% ad valorem. The final bill included specific tariff schedules for more than 20,000 products, and almost all of them increased the rate over previous levels. Many writers of U.S. trade policy have been so influenced by the spectacle of interest groups writing the Smoot-Hawley Tariff that they repeatedly see its visage in every trade bill introduced in Congress. ⁸ However, instead of a symbol of what was to follow, Smoot-Hawley represented the end of an era of high tariff

⁷ Hoover's comment is in William Staff Meyers and Walter H. Newton, The Hoover Administration: A Documented Narrative (N.Y.: Charles Scribner's Sons, 1936), pp. 493-95.

⁸ Analysts were strongly influenced by the definitive study of the Smoot-Hawley tariff by E. E. Schattschneider, Politics, Pressures, and the Tariff: A Study of Free Enterprise in Pressure Politics, as Shown in the 1929-30 Revision of the Tariff (N.Y.: Prentice Hall, Inc. 1935).

policies, unquestioned Congressional obeisance to interest groups, and weak Presidential leadership.⁹

The real watershed in U.S. trade policy occurred in 1934 with the passage of the Reciprocal Trade Agreements Act. Since then, the argument for protection became an argument of exception rather than principle. Since then, overall U.S. barriers to international trade have consistently been lowered. U.S. trade policy has evolved through three phases during the last fifty years: (1) bilateral agreements to reduce tariffs (1934-45); (2) multilateral trade agreements under the auspices of GATT to reduce tariffs (1945-67); and (3) multilateral negotiations to harmonize, reduce, or eliminate nontariff barriers (1967-present). Let us briefly review the politics and the policy during each of these periods.

III.3.1.1 Bilateralism and Reciprocity, 1934-45

The Reciprocal Trade Agreements Act of 1934 authorized the President (and by him, his representatives) to negotiate bilateral trade agreements to reduce tariffs by as much as 50% of their 1934 level on a reciprocal basis.

For the first time, instead of setting tariffs on each product, Congress delegated the responsibility to the President to negotiate tariff reductions. Secondly, the President did not have to re-submit the agreement to Congress for approval or ratification. However, at the request of Congress, the President

⁹ For a critique of the Schattschneider book and the elaboration of this proposition, see Robert Pastor, Congress and The Politics of U.S. Foreign Economic Policy.

established an Executive Committee on Reciprocity that would listen to the concerns of adversely-affected interest groups and communicate them to the trade negotiators. The principle of giving industries a voice and, in special cases, some relief from tariff concessions became known as the "escape clause," and it was accepted as an essential element in trade policy by both branches of the government. Escape clause were also inserted in the trade agreements. Although the President wanted permanent negotiating authority, Congress insisted that the Executive Branch return periodically to Congress to justify the policy and seek renewals of authority. The President did just that, and Congress extended his authority in 1937, 1940, and 1943.

Between 1934 and 1945, the State Department negotiated twenty-eight bilateral trade agreements, and tariffs fell from an average of 59.1% in 1932 to 28.2% in 1945. Put another way, the tariff rates on 64% of all dutiable imports were reduced by 44%.

III.1.3.2 Multilateralism and Tariff Reduction, 1945-67

As the second world war came to an end, the United States faced a choice between three options: (1) raise its trade barriers and turn inward as it had after the first world war; (2) continue with its bilateral reciprocal agreements; or (3) pursue the role of global leader and seek to reduce world barriers to trade. Presidents Roosevelt and then Truman chose the third option.

In November 1946, after Truman received a new grant of negotiating authority from Congress, the United States invited

twenty-two nations to the first round of multilateral trade negotiations in Geneva. Within a year, a new agreement -- called the General Agreement on Tariffs and Trade (GATT)-- was reached, reducing tariffs on more than 45,000 items that accounted for more than one-half of world trade. At Congress's insistence, the U.S. inserted the "escape clause" concept as Article XIX of the GATT.

U.S. trade policy had become multilateral in theory, but in practice, the U.S. made mostly unilateral concessions in Geneva and at subsequent rounds of trade negotiations. The U.S. waited until 1962 for the European and Japanese economies to recover before demanding that they lower their trade barriers to match U.S. tariffs.

In 1962, after vigorous lobbying by President Kennedy, Congress passed the Trade Expansion Act, which for the first time gave the President authority to negotiate on an across-the-board, linear method rather than product-by-product. The President had authority for five years to negotiate tariff reductions by 50%. As a result of the "Kennedy Round" that concluded on June 30, 1967, 46 nations agreed to reduce the average tariff for industrialized countries to a point-- about 9%-- where it ceased to become a critical barrier to trade. From 1946 to 1967, U.S. exports tripled from about \$10 billion to about \$31 billion, and world trade expanded from about \$55 billion to about \$235 billion.

III.1.3.3 Non-Tariff Barriers, 1967- present

The lowering of tariffs and the growth of world trade and investment transformed the agenda of trade negotiations. The principal issue became "non-tariff barriers," which Robert Baldwin defines as "any measure (public or private) that causes internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential real world income."¹⁰ What this means, in effect, is that since 1967, there is hardly an economic issue that could not be considered a legitimate object of world trade negotiations. Regulatory policies-- such as safety, health, or pollution standards-- regional development subsidies, and discriminatory procurement procedures became issues of international trade because each of these conferred an advantage for a country's products and a disadvantage for potential imports.

In the Trade Act of 1974, Congress gave the President authority to lower tariffs even further. In addition, Congress devised a novel mechanism to permit the negotiation of non-tariff barriers. The Act also implemented a ten-year generalized system of tariff preferences (GSP) to provide duty-free access for many products to the U.S. market for developing countries. This provision represented a significant departure from the most-favored-nation principle, but it was a recognition of the

¹⁰ Robert E. Baldwin, Non-Tariff Distortions of International Trade (Washington, D. C.: Brookings Institution, 1970), pp. 2-5.

importance of increased trade as a tool for economic development, and it was a step already taken by many of the other industrialized countries.

The U.S. assumed the lead in the seventh "Tokyo Round" of multilateral trade negotiations and joined with forty-one nations that together accounted for 90% of world trade to complete an agreement on April 12, 1979. The United States agreed to cut its tariffs on industrial goods by an average of 30% -- from 8.2% to 5.7%-- over an eight year period beginning in 1980. On import-sensitive products, such as textiles and steel, tariff reductions would be deferred until 1982 but would amount to almost 40%. In addition, sector arrangements were negotiated on steel, civil aircraft, and agricultural trade; and five new nontariff codes of conduct were negotiated to bring the practices of governments more in harmony on subsidies and countervailing duties, government procurement, products' standards, import licensing, and customs valuation.

The agreements on non-tariff barriers did not prove as effective as many had hoped. Instead of completing work on these issues, the codes represented the beginning of a very difficult process. First, the international community had to agree that it was worth negotiating Non-Tariff Barriers (NTB's), which most governments viewed as strictly domestic. Second, one had to define the issues with sufficient specificity to permit meaningful negotiations. Then, and only then, did serious negotiations become possible.

Since the conclusion of the Tokyo Round, the U.S. has pressed for further negotiations on services, subsidies, high technology goods, rules on investment, procurement, agriculture, and better protection for intellectual property rights (patents, copyrights, trademarks). Little progress was made. At the same time, the U.S. trade imbalance grew to awesome proportions-- from \$33 billion in 1981 to \$123 billion in 1984 to \$145 billion in 1985. North Americans viewed the imbalance as caused by an over-valued exchange rate and the fact that the U.S. had a more open market than its trading partners. Pressures for protectionism grew.

Despite such pressures, the Congress considered and passed two significant liberalizing trade bills. First, the Caribbean Basin Initiative was passed in August 1983 by Congress and permitted, for the first time, one-way free trade-- with some significant exceptions-- for products from individual nations in the Caribbean and Central America.

Secondly, Congress approved the Trade and Tariff Act of 1984, which gave the President additional authority to press for a new round of trade negotiations and to negotiate the reduction, and if necessary, the increase of tariffs and non-tariff barriers. Concerned that other governments were resisting a new round of trade negotiations, Congress also delegated to the President additional authority to negotiate sectoral arrangements and "free trade agreements" on a bilateral basis.

The GSP was intended to be temporary and was due to expire

in January 1985, but Congress extended it for another eight and one-half years in the Trade Act of 1984. However, the new act gave the President authority to negotiate reductions of the trade barriers of the advanced developing countries, which were becoming more competitive, and to report to Congress in 1988 with a list of those countries that should be "graduated" from the GSP. The decision to postpone "graduation" for nearly a decade represented a significant concession by Congress to both the increasing importance of the advanced developing countries and the debt crisis, which precluded a more rapid absorption into the international trading system.

In September 1985, the Administration also adopted a two-pronged approach to reduce the protectionist pressures. First, President Reagan announced an aggressive strategy to counter foreign governments that were using subsidies to capture markets from U.S. exporters, and at the same time, he pledged that the government would play a more active role to ensure that U.S. industries would not be injured by imports that arrived as a result of unfair trade practices. Secondly, and more significantly, the Treasury Department changed its policy and sought a fundamental realignment of exchange rates in coordination with four other industrialized countries. ¹¹

Within one year, as a result of that decision, the dollar declined 55% in value against the Japanese yen and 40% against

¹¹ U.S. Department of State, "President Reagan: Trade Policy Action Plan," September 23, 1985.

the West German mark. Despite the success in realigning currencies, the U.S. trade deficit continued to worsen. By September 1986, some analysts predicted the 1986 trade deficit would approach \$200 billion, up from \$148.5 billion in 1985.¹²

In the third period of U.S. trade policy, most barriers continued to decline, although non-tariff barriers were much more resistant to reductions than tariffs. By 1983, U.S. tariffs averaged about 5%, and one-third of U.S. imports entered duty-free. In September 1986, representatives of seventy-four nations met in Uruguay and agreed to a new comprehensive agenda for an eighth round of international trade negotiations.

III.2 U.S. Policy on Foreign Direct Investment

III.2.1 Definition

Foreign direct investment (FDI) exists when at least ten percent of the stock of a domestic corporation is held by a foreign person or organization. If the investment is less than 10%, it is called foreign portfolio investment. The threshold is based on an arbitrary judgment of the point at which equity becomes control.

U.S. policy on foreign direct investment consists of all those measures, statements, and actions, which affect the direction, flow, amount, or composition of international investment. Such a definition, while straightforward, does not begin to suggest the diversity of policies that are grouped under

¹² Clyde H. Farnsworth, "Sharp Drop in Dollar's Value Fails to Cut U.S. Trade Deficit," New York Times, September 19, 1986, p. 1.

the rubric of foreign investment policy. First, one needs to distinguish between U.S. foreign investment abroad (referred here as "outward investment") and foreign investment in the U.S. (referred here as "inward investment"). Secondly, in discussing outward investment, one needs to distinguish between balance of payments policies (generally to restrict the outward flow of capital) and policies aimed at promoting and protecting U.S. investment abroad. Thirdly, in discussing inward investment policies, there are a host of distinctions one must make-- between local, state, and federal policies; between differential and national treatment (the latter occurring when a foreign investor is treated as an American investor); and between promoting, restricting, and regulating foreign investors.

Given the diverse purposes of foreign investment policies, one should not be surprised that there has been significant discrepancies and inconsistencies between these policies. In the early 1960s, for example, President Kennedy tried to stop the flow of U.S. capital abroad (mostly to Europe), while at the same time, he was encouraging the private sector to invest \$10 billion in Latin America. While the U.S. Department of State criticized Latin America for nationalizing or excluding U.S. mineral investments, officials in the Department of Interior and in State governments applied stringent and selective controls on foreign investments in the United States.

Not until the mid-1970's did the U.S. government even begin to think of its outward and inward investment policies as related

to one another. Before then, the U.S. government even used different criteria to define outward and inward investments. Government analysts now not only recognize the need to establish some consistency in policy between inward and outward investment, but they also recognize the relationship between trade and foreign investment, and both of these and the value of the dollar.

One needs to distinguish between six distinct outward investment policies: (1) balance of payments policy aimed at discouraging the outward flow of U.S. capital; (2) the encouragement by guarantees, credits, and diplomatic assistance of foreign investment as a supplementary tool to assist economic development; (3) strategic prohibitions against certain kinds of investments in Communist countries; (4) tax policies on U.S. multinational corporations, which may encourage, discourage, or not affect U.S. foreign investment; (5) the extra-territorial application of U.S. laws like antitrust and securities disclosure; and (6) the use of foreign investors as overt and covert instruments of American diplomacy. In addition, one might consider the full range of domestic policies-- industrial policy, manpower policy, growth policy, etc.-- as affecting both domestic and international investment decisions.

Some of these policies aim to encourage U.S. investment abroad, and some aim to restrict, regulate, or discourage investment. Our main purpose in this section is to review outward investment policy, focusing especially on the issues

related to the promotion and protection of U.S. foreign investment abroad. It needs to be remembered, however, that in the period after World War II, U.S. Presidents spent much more time concerned about the flight of U.S. capital overseas (because of its effect on the balance of payments) than they did on issues related to the promotion or protection of U.S. investment overseas.

III.2.2 Evolution of Outward Investment Policy

For the reasons noted above, the U.S. has not formulated a systematic outward investment policy. Rather, the U.S. has developed many different policies -- on taxes, balance of payments, and promoting development and security -- which aim to affect the international investment decisions of U.S. corporations.

While it is commonly believed in Latin America that the United States has encouraged foreign investment abroad in response to demands by U.S. corporations to acquire more profits and power, the facts suggest otherwise. During those periods when U.S. policy has encouraged U.S. investment abroad, the motive has been to assist those countries whose instability were sources of national security concern in the United States. The United States government also wanted to supplant European investment not so much for economic reasons, but to preclude European conflicts in the Americas. Even during the "dollar diplomacy" period of William Howard Taft, the U.S. government found itself in the uncomfortable position of encouraging

reluctant U.S. banks to invest in Central America.

In 1939, Adolf A. Berle, a former Assistant Secretary of State for Inter-American Affairs, reflected on the past relationship between the U.S. government and U.S. business abroad:

"... the intervention of American capital in Central America and in the West Indian republics was undertaken not at the instance of American capitalists seeking outlet for their funds. It was undertaken at the direct instance of the American government, and the motive appears to have been the fear least European capital, affected by European politics, might find a foothold on this side of the Atlantic..."¹³

Further proof of this conclusion is that U.S. efforts to encourage foreign investment have always been directed at unstable areas where American businessmen are particularly reluctant to invest. After World War II, the U.S. first promoted foreign investment in Western Europe. As an adjunct to the Marshall Plan, the U.S. implemented an investment insurance and guarantee program aimed at reducing the non-commercial risks of war, expropriation, and currency nonconvertibility for the prospective investor.¹⁴

After the Cuban Revolution in 1959, U.S. attention shifted to the developing world, particularly Latin America. The central purpose of President Kennedy's Alliance for Progress was to

¹³ Cited in Samuel F. Bemis, The Latin American Policy of the United States (N.Y.: Harcourt, Brace, and Company, 1943), p. 167.

¹⁴ C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, American Multinationals and American Interests (Washington, D.C.: Brookings Institution, 1978), p. 24.

promote economic and social development in order to address the root causes of leftist, un-American revolutions.

The Alliance was aimed to promote economic development, social reform, and political change. U.S. private investment played an important role for two reasons. First, North Americans believed that the private sector offered the most efficient path toward economic development, and by widening the base of political pluralism, the private sector also contributed to the reinforcement of democracy. Second, the U.S. understood the limits of public aid, and viewed private investment as a necessary addition to those scarce resources. As President Kennedy said in 1962: "Private capital is necessary in Latin America... There isn't enough public capital to do the job." ¹⁵

Expropriations of U.S. investments in Cuba and in other countries in Latin America threatened both U.S. investments and Kennedy's strategy for encouraging more. There was therefore a consensus on the need to respond to this threat, although initially, there was disagreement on the best response.

In 1962, Congress passed an amendment, subsequently named for its sponsor, Senator Bourke Hickenlooper of Iowa, to the Foreign Assistance Act requiring the President to suspend U.S. assistance to a country if it expropriates U.S. foreign investment and does not make provisions for "prompt, adequate, and effective compensation." The State Department initially

¹⁵ Presidential Papers 1962, John F. Kennedy, "News Conference," 7 March 1962, p. 75.

opposed the amendment, but reluctantly accepted it after the Senate agreed to allow the Executive some discretion in its implementation. Both conservatives and liberals endorsed Hickenlooper's amendment, which passed by voice vote. Senator Hubert Humphrey (D-Minn.) explained why it received such wide agreement in Congress: "It was an amendment which I believed was needed to counter the reckless abandon that seemed to be prevailing in certain countries relating to the expropriation of American property... [If this behavior goes unpunished] a fire [will be]...set loose, which will consume the values and principles for which this country stands." ¹⁶ In addition, the U.S. strengthened its insurance program for foreign investors.

The Executive Branch accepted the intent of the Hickenlooper amendment, but instead of terminating aid to governments that nationalized U.S. investments, the State Department applied pressure privately. When this was ineffective, the Department sought alternative ways to raise the costs to developing countries that expropriated U.S. corporations without compensation. Over time, Congress allowed the President broader authority and discretion to apply the amendment.

However, U.S. investors, as we shall see, gradually shifted their investments in Latin America out of extractive industries and into manufacturing and out of smaller, vulnerable nations to

¹⁶ Congressional Record, 11 February 1963, p. 2136. For the origins of the amendment, see Charles Lipson, Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries (Berkeley: University of California Press, 1985), Part II.

those with the largest internal markets-- Mexico, Brazil, and Argentina. In general, most multinational corporations (sometimes referred to as transnational corporations) showed a clear preference to increasing their investments in the industrialized rather than the developing nations.

As a result of the shift in the direction of investments and the decline in the number of investment disputes, there was less reason for the U.S. government to formulate new policies toward outward investment. At the same time, in the mid-1970s, criticism of the activities of multinational corporations (MNC's) increased in the U.S. The labor movement argued that MNC's exported jobs, and while not necessarily agreeing with that argument, many Democrats were more sensitive to it.

Therefore, when the Carter Administration took office, it reviewed the overall question of whether the U.S. should promote investment abroad. There were no serious security crises that would have required the U.S. to encourage foreign investment as a supplement to foreign aid. Therefore, the Carter Administration issued a new position, asserting that it would "neither promote nor discourage inward or outward investment flows or activities."

In 1981, the Reagan Administration perceived a very serious security threat in the Caribbean Basin. Its principal strategy was to combat that threat militarily, but its policy evolved to take into account political, social, and economic aspects of the crisis. Initially, it promoted foreign investment in the

Caribbean as the only way to promote development,¹⁷ and the Caribbean Basin Initiative, which was first announced in February 1982, was mainly directed toward promoting increased foreign investment by lowering trade barriers for exports to the U.S. from the Caribbean.

On September 9, 1983, the Reagan Administration issued a comprehensive statement on International Investment Policy, which appeared to try to connect Reagan's promotion of investment with his predecessor's more neutral posture. The statement recognized "the vital contribution of international direct investment flows to economic growth and development and the benefit to home and host country alike." Then, it suggested a somewhat neutral posture by asserting that "direct investment flows should be determined by market forces," but it concluded on a very activist note, strongly opposing any barriers to foreign investment. The Administration also indicated that it would support "multilateral efforts to develop appropriate principles of behavior for governments and MNC's." The U.S. would only support codes or guidelines that were voluntary and that didn't discriminate against MNC's in favor of purely national enterprises. ¹⁸

¹⁷ Juan de Onis, "U.S. Caribbean Plan to Stress Private Investment," New York Times, June 14, 1981, p. 23.

¹⁸ U.S. Department of State, Bureau of Public Affairs, GIST, "International Investment Policy," January 1984; and "Multinational Corporations," March 1986.

III.3 U.S. Foreign Aid Policy

III.3.1 Definition and Purposes

U.S. foreign aid policies are those decisions involving the amount, conditions, composition, and direction of grants or loans of capital, technical, technological, and managerial resources from the U.S. to other governments. The United States provides aid directly (bilateral aid) and through its contributions to international and regional development banks, the United Nations and its agencies, and non-governmental organizations.

Bilateral aid consists of loans and grants made for economic and security purposes. Economic aid is disbursed through the Agency for International Development (A.I.D.), Food for Peace (PL-480: Title I is repayable in loans in either dollars or local currency; Title II is a grant), and Peace Corps. Military aid is used for training (IMET), balance of payments support (Economic Support Fund), and loans and grants for military equipment.

From 1946 to 1984, the United States transferred more than \$174 billion in economic aid (\$53 billion in loans; \$121 billion in grants) and \$106 billion in military aid (\$31 billion in loans; \$75 billion in grants). The total of \$281 billion in economic and military aid does not include loans from the Export-Import Bank, which amounted to \$48 billion. ¹⁹

¹⁹ U.S. Agency for International Development, U.S. Overseas Loans and Grants, July 1, 1945-September 30, 1984, p. 84.

Historically, wealth has generally been transferred from the poor and weak to the strong and rich. The transfer of over \$281 billion in forty years from the strongest nation in the world to the poor nations is unprecedented both in scale and duration.

The U.S. has also played a leadership role in developing and supporting the international development banks. Since 1945, the World Bank has loaned over \$130 billion to the developing countries. The U.S. has been the largest contributor to the Bank, currently accounting for over 25% of the funds. The International Development Association (IDA) has provided more than \$37 billion in credits on concessional terms to the poorest countries in the world. The International Finance Corporation (IFC) of the World Bank mobilizes resources for private sector development in the Third World, and the cumulative total of its loans has been \$5.6 billion. The Inter-American Development has made over \$25 billion of loans to Latin America and the Caribbean. In addition, the U.S. contributes to the United Nations Development Program, which has loans over \$5.5 billion; the Asian Development Bank, which has loaned over \$14 billion; and the African Development Bank, which has loaned over \$3 billion. ²⁰

Foreign aid serves numerous purposes, including the following: (1) promoting economic, social, and political development and military security; (2) influencing a government's policy; (3) promoting or protecting U.S. foreign

²⁰ U.S. A.I.D., Overseas Loans, 1984, pp. 4, 192.

investors; and (4) creating markets for agricultural surplus or other U.S. exports.

Since all of these goals cannot be accomplished simultaneously, policy-makers must choose between them; they must weigh the relative value of each goal and rank them in a hierarchy of priorities. For example, an Administration that gives a higher priority to fighting Communist insurgencies than to promoting human rights is likely to give more aid to countries facing an insurgency than to other.

Foreign aid is often the most significant instrument for promoting U.S. interests in a particular country. Therefore, the decision-making process for determining the amount and conditions for giving foreign aid is of major importance, and it is the result of an interactive process involving Congress and the President. Requests for foreign aid reflect the different weights each administration attaches to different goals. Congress does not always agree with the Administration's priorities, and therefore, the debate between the President and Congress on foreign aid is often among the most serious foreign policy debates each year.

III.3.2 Evolution of U.S. Foreign Aid Policy

Since World War II, U.S. foreign assistance policy has passed through three stages, which have, to a certain extent, overlapped, but which have been aimed at different goals and recipients. During each phase, there was a change in the relative distribution between economic and military aid, the

geographical focus, and the purposes of aid.

During the first phase, from 1945-52, the principal objective of U.S. foreign assistance policy was the relief, reconstruction, and recovery of Western Europe. More than \$34 billion was appropriated for that purpose, of which more than \$22 billion were grants for economic aid. The rest of the funds included loans, and a relatively small amount for military assistance.

The passage of the European Recovery Program-- or the Marshall Plan-- in March 1948 by Congress was the beginning of the foreign aid program, but it was not the beginning of U.S. aid to Europe. From 1940 to August 17, 1945, the United States transferred more than \$41 billion of resources, mostly war materiel, to its European allies, and for the three postwar years prior to the Marshall Plan, the United States gave \$6 billion in grants and \$8.5 billion in credits. 21

The second phase of the U.S. aid program began with the passage of the Mutual Security Act in 1951 during the Korean War. During this phase, the U.S. aimed to strengthen the military capabilities of its allies on the rim of the Soviet Union and China. Between 1951 and 1961, over \$48 billion was dispersed, the vast majority being grants, and the slight majority was for military aid. The principal recipients were South Korea, Taiwan, the Philippines, Indo-China, Iran, Turkey, and Greece. While

21 Congressional Quarterly, Congress and the Nation, Vol. I, 1945-64, p. 167.

the shift from Europe to Asia was noticeable, an even clearer illustration of the shift in priorities occurred in 1950 when military assistance as a ratio of economic assistance changed from 1:4 to 4:1.

In 1961, with the passage of the first Foreign Assistance Act, the United States once again altered the geographical direction of its foreign aid policy-- this time to the developing world. This period, which began in 1961 and continues to the present, can be divided into three parts. During the first decade, U.S. policy and aid concentrated on Latin America and the Caribbean. President Kennedy announced a 10-year, \$10 billion Alliance for Progress, and although he died, his successor completed the commitment. The ratio of economic to military aid to Latin America in the decade of the 1960s was more than 10:1.

In the second decade -- and phase-- of the Foreign Assistance Act, the U.S. reduced its bilateral aid program to Latin America and concentrated it in three countries: Vietnam (1965-75, receiving \$21 billion), Israel (\$18.7 billion from 1962-80), and Egypt (\$7.6 billion from 1962-80). For all intents and purposes, the bilateral aid program became two separate programs: most of the money went to these three countries as well as to several others with whom the U.S. had military base agreements. The rest of the development assistance was allocated to help meet the "basic human needs" of the poorest people in the poorest countries. This latter strategy was proposed by Congress

in the 1973 foreign aid law. At the same time, the U.S. began to give a higher priority to the international development banks.

With the onset of the Reagan Administration, U.S. aid policy shifted to a third phase. In 1981, the U.S. reduced its support for the international development banks by 25%, increased and further politicized its bilateral aid program, and increased military aid in absolute as well as relative terms. Naturally, those regions, which the Administration perceived to be in the most desperate security situation-- like Central America and the Caribbean-- received increased amounts of aid. In the Administration's 1986 budget, bilateral aid accounted for 92% of total foreign aid, and the percent of total foreign aid devoted to military and security aid had increased from 25% in 1980 to 40%. 22

In September 1985, Secretary of the Treasury James A. Baker III presented a plan to assist developing nations to adjust to the debt crisis. The plan proposed that the World Bank and the Inter-American Development Bank increase loans to debt-burdened countries and monitor their adjustment policies. To implement the Plan, the Reagan Administration promised to increase its contribution to the international development banks, presaging a return to the high priority, which previous administrations had given to the banks.

²² Robert S. McNamara, "The Role of the Multilateral Finance Institutions in Development Assistance," statement before the House Subcommittee on International Development Institutions, Banking and Currency Committee, September 9, 1985.

IV. The Question of Coherence and Consistency

"A foolish consistency is the hobgoblin of little minds
Adored by little statesmen and philosophers and
divines."

Ralph Waldo Emerson

In trying to identify future trends and policies, one is inevitably drawn to questions of whether the past policy has been consistent and coherent. Let us examine each of the issues and then seek some general conclusions about the coherence of U.S. foreign economic policy.

IV.1 Trade Policy

There are two views about whether U.S. trade policy has been coherent or not. The first concentrates on the major trade laws passed by Congress from 1934 to the present, and on the trends of world trade. It concludes that U.S. trade policy has been relatively consistent, liberal, and coherent. During the last fifty years, U.S. tariffs declined from over 50% to less than 5%, and U.S. and world trade expanded at much more rapid rates than world production, thus tying the world much more closely together than ever before. Congress has simultaneously expanded the President's authority to negotiate the reduction of trade barriers and pressed him to use all the tools available to him to persuade U.S. trading partners to lower their barriers to U.S. goods. The result has been an international economic system that is the largest and freest in world history.

Another view holds that the movement toward freer trade has

been inconsistent, incoherent, and predominantly protectionist. Generally, five arguments are used in defense of this position. Let us review and analyze each of them.

First, these analysts have tended to give greater weight and importance to the proliferation of voluntary export restraint agreements than, for example, to important trade laws or to the increase in world trade and the general decline in trade barriers. Voluntary export restraint agreements (VERA's) have restricted trade in textiles and apparel, steel, footwear, some electronic products, and automobiles. As per capita income increased in the U.S. and its trade barriers declined, many labor-intensive industries felt the harsh chill of international competition and pressured the government to restrain such trade. In order to maintain support for freer trade policies, and to pass important trade legislation, every President since Eisenhower has had to accept VERA's in some sensitive sectors--especially textiles and steel. It was felt that a minor restriction on trade was worth the price of obtaining a major advance on trade legislation.

In assessing whether U.S. trade policy has been more open or protectionist, one needs to judge which is more important-- the VERA's or overall trade policy? While VERA's have been negotiated on important commodities, these are very few as compared to the thousands of commodities that currently cross U.S. borders with a trivial duty, or none at all. Moreover, U.S. and world trade have generally increased at faster rates than

U.S. and world production. ²³

In a recent study on non-tariff barriers, two economists from the National Planning Association concluded that NTB's had not grown to the same importance as tariffs, which have sharply declined overall. They found "protection provided by the NTB's . . . like tariffs, appears to be declining." They estimated that as a result of the Tokyo Round of trade negotiations, the overall protection afforded U.S. manufacturing from the tariffs and the NTB's would be about 28% lower in 1985 than it was in 1976. ²⁴

Second, there is a tendency to dismiss all voluntary export restraint agreements as "protectionist" without looking more closely at their cause, their purpose, or their effect on trade. Most VERA's are negotiated after a "surge" in imports threaten to dismantle an entire industry. It is useful to keep in mind as a point of comparison that while most developing countries exclude all imports that could compete with a domestic product, the U.S. VERA's all accept a high-level of import penetration.

For example, the U.S. negotiated an agreement with the

²³ From 1950 through 1975, trade among industrialized countries increased at an average annual rate of 8% while growth was half of that. Only in 1981 and 1982 did the pace of world production-- slowed by global recession-- exceed that of trade. [C. Fred Bergsten and William R. Cline (ed.), Trade Policy in the 1980s (Washington, D. C.: Institute for International Economics, 1982), p. 14]

²⁴ Peter Morici and Laura L. Megna, U.S. Economic Policies Affecting Industrial Trade: A Quantitative Assessment (Washington, D. C.: National Planning Association, 1983), pp. 97-103.

Japanese on cars in 1982 only after Japanese cars increased their share of the market from 6% in 1971 to 12% in 1978, to 22% in 1981. The U.S. did not insist that the Japanese stop all exports or reduce their market share to 10%, but only that the U.S. auto industry have time to adjust and adapt without being overwhelmed.

Similarly, while restraints on trade in textiles have existed for several decades, this hardly prevented substantial trade, modernization, and adaptation in the international industry. U.S. imports of man-made fiber textiles and apparel rose in value from \$129 million in 1964 to \$1.6 billion in 1971. During the decade ending in 1983, textile and apparel imports increased by an average of 6% per year on a volume basis; they increased 25% in 1983 and 32% in 1984. U.S. employment in the textile industry continued its sharp decline, but the overall industry adapted and modernized. ²⁵

VERA's do not prevent trade, nor do they protect markets from all competition. They do, however, restrain trade, and while that imposes costs on consumers as well as exporters, there are also very substantial costs that are paid by trade-impacted industries when "surges" occur. The key questions related to VERA's would seem to be not whether they restrain trade-- of course, they do-- but what effect do they have on

²⁵ Robert Pastor, "The Cry and Sigh Syndrome: Congress and Trade Policy," pp. 187-188; U.S. Department of State, "GIST: Protectionism," February 1986; and U.S. Department of State, "GIST: Textile Import Control Program," March 1986.

trade? Do the VERA's reduce the market share for a particular import, or do the VERA's permit managed growth? If the VERA's permit managed growth, and most of them do, then to dismiss them as "protectionist" is misleading and unproductive. A more effective approach would be to focus on two dimensions of the VERA's: the margin of growth permitted by VERA's, and the duration of the agreements. Developing countries ought to aim to try to widen the margin of growth of VERA's and limit their term.

Third, those who see an incoherent or protectionist policy tend to view the implementation of "escape clause" provisions or unfair trade practices as protectionism. However, international trading rules under GATT have always accepted the principles of relief for industries injured due to imports (escape clause) and compensation for unfair trade practices (either dumping or subsidies). To dismiss anti-dumping procedures or countervailing duties as "protectionist" is to ignore the rules of the game, whose purpose is to maintain the integrity of the entire system.

Fourth, there is a tendency to confuse a petition to the International Trade Commission for relief with a decision, and the introduction of a bill or resolution in Congress with the passage of a law. As we noted previously, in thinking about petitions and Congressional resolutions, one has to distinguish between signals (or warnings) and policy. There have been literally thousands of protectionist bills that have been introduced by Congressmen during the last fifty years, yet only

about 19 major trade laws have passed and been signed by the President; all of them have aimed to reduce barriers to trade, not raise them.

And yet if one examines the newspapers and the literature, one would conclude that the U.S. is either protectionist or on the verge of becoming protectionist. That conclusion is the result of following the debate too literally: when Congressmen introduce protectionist bills, they have ulterior purposes other than passing protectionist laws. What they are trying to do is show their constituents that they care. Alternatively, they use the bills to press the International Trade Commission to be more even-handed, or to stimulate the President to negotiate more intensely, or to persuade the trading partners of the U.S. to open their markets and cease unfair trading practices. As the system has been responsive, the warnings have stopped short of becoming policies.

The system has been relatively responsive because the trading partners of the U.S. have an even bigger stake in the U.S. market than the U.S. has in their's. These countries seldom open their markets unilaterally or without pressure because of the domestic political cost. Only when the threat to close the U.S. market becomes credible do these countries calculate that the cost of keeping their markets closed is higher than of opening them.

Finally, those who argue that U.S. trade policy has not been coherent point to the difficulty in resolving most of the

issues on the international trade agenda at this time. It is quite true that the solution to these new issues will take time and will require much more work in defining the problem. But these issues are actually a sign of the success of the international trading system rather than a symptom of its imminent collapse. It is only because tariffs and other barriers to trade have declined so sharply and the world has grown so interdependent that these new and difficult non-tariff barriers are even on the agenda.

In brief, and despite these very real reservations that have been raised, one can still identify a coherence and consistency in U.S. trade policy since 1934. The U.S. aims to reduce the barriers to trade-- not as quickly as economists would like, nor as slowly as declining industries demand-- but there is no doubt of the direction of trade barriers-- down-- and trade-- up. And most agree that lower trade barriers and a trade policy aimed in that direction have contributed to U.S. prosperity.

In sum, therefore, the policy does yield a certain coherence and consistency. It is aimed at freer and fairer trade, not free trade. Policy-makers pursue the good in trade policy, not the perfect. They compromise on the margins of trade policy in order to preserve the central features.

IV.2 The Incoherence of U.S. Investment Policy

U.S. outward investment policy is actually an amalgam of policies aimed at different purposes. Little wonder that it

appears incoherent, inconsistent, and lacking any conceptual clarity. This incoherence is multiplied if one includes inward foreign investment policy. Indeed, U.S. outward investment policy opposes the Calvo Clause, which insists on exclusive host government legal jurisdiction for investment disputes, while U.S. inward investment policy appears to accept it.

Each of the strands of U.S. outward investment policy has its own consistency and coherence, and is administered by different agencies. At times, one of these strands, for example, balance of payments considerations in the 1960s, has been more important than the others. Still at other times, other policies, for example on investment disputes, seemed to dominate the thinking of policy-makers. But there has never been a systematic effort to formulate a single policy and assign it to a single agency to be implemented.

Over time, U.S. outward investment policies had much less impact on U.S. investment decisions than the inward policies of Latin American governments, and these policies probably had less impact than the general political climate and stability of a country. (However, Latin policies were obviously related to the political stability of the country.) One should also not ignore the importance of economic criteria -- market, labor costs and productivity, taxes, and technology-- as factors influencing investment decisions of multinational corporations. Indeed,

economic factors are generally the most important.²⁶

IV.3 The Many Consistencies of Aid Policy

It is difficult to locate the coherence in U.S. aid policy because, as with investment policy, it serves so many diverse purposes. Nonetheless, the one thread that runs through the three phases of U.S. aid policy is that the U.S. transferred enormous amounts of resources abroad to gain influence and to promote development and security among its vulnerable friends.

During the Marshall Plan, when its allies were most vulnerable, the U.S. was prepared to offer the largest amount of aid (as a % of its GNP). During the second phase, the threat was still viewed as immediate (although perhaps not so urgent as during the first phase), and the U.S. provided large quantities of military aid to those countries bordering the Soviet Union and China. And finally, in the third phase, the threat was more remote and perceived as related to poverty; as such, the U.S. refocused its efforts at promoting long-term development. As the U.S. perception of the threat in the developing world changed in recent years so too did the composition and objectives of the aid program.

In brief, there was a coherence and consistency to U.S. foreign aid policy, provided that one defines it in the broadest terms: to use U.S. resources to help friends and deter enemies.

²⁶ See Robert Pastor, U.S. Foreign Investment in Latin America: The Impact on Employment (Buenos Aires: Institute for Latin American Integration, Inter-American Development Bank, 1984). Also published in Spanish as "La Inversion de Estados Unidos en America Latina: sus Efectos En El Empleo."

IV.4 The Overall Coherence of U.S. Foreign Economic Policy

The question of whether U.S. foreign economic policy yields a certain coherence depends partly on how one defines the policy and partly on the level of generality one seeks. A policy can be defined in such general terms that it will always sound coherent, or it can be disassembled into micro-policies, which will appear incoherent because each "micro-policy" pursues a different objective.

This is particularly true of "foreign economic policy," which is such an expansive umbrella that it covers many policies with very little in common. If one defines "coherence" in terms of whether policies share purposes, then "foreign economic policy" is hopelessly and unavoidably incoherent. Too many policies pursue too many purposes, and there are times when these purposes cross each other.

However, if one is prepared to accept minor inconsistencies in order to posit a more general statement about U.S. foreign economic policy, then such a statement can be identified: in the post-war period, U.S. foreign economic policy has aimed to advance U.S. interests in a freer and more prosperous world by lowering barriers to trade and investment and promoting development. However, the pursuit of lowered barriers has not been indiscriminate nor urgent, and the commitment to development has varied with each Administration and the perceived threat to U.S. security interests.

If one accepts this statement as accurate, then there is an

overarching coherence to U.S. foreign economic policy, and it is one that offers hope to those who believe that the U.S. should link its future with that of the world's.

V. Current Issues and Debates

In this part, we shall examine the trends and changes that are occurring in the world in each of the three issues-- trade, investment, and aid-- and the policy implications of these changes.

Foreign economic policies are answers to the questions raised by new trends in the global economy. However, decision-makers enjoy considerable latitude in choosing which trends and issues to address and how to approach them. For example, although the U.S. budget deficit is widely recognized as a significant problem for the U.S. and world economy, the Reagan Administration has largely avoided the issue. There are also many issues, such as the U.S. trade deficit, that do not lend themselves to any simple solution. Indeed, the devaluation of the dollar seemed to have had very little favorable impact on the U.S. trade deficit.

Our purpose is to understand how the debates on policy are most likely to evolve so that we can try to anticipate shifts in policy. While there is no guarantee that an understanding of changes in the world will open a window to the policy debate, or that an understanding of the debate will permit one to influence it, nonetheless, it is clear that a better picture of the political landscape could help one to avoid the obstacles and

take advantage of the opportunities. One can do that best by first detecting shifts in the world and then identifying the current debates, the alignment of interests and forces, and the ways in which the policy-making process can affect the outcome of the debate.

V.1 U.S. Trade Policy: Trends and Issues

From the conclusion of the Tokyo Round of trade negotiations in 1979 to the next formal meeting of representatives of seventy-four nations of GATT in Punta del Este in September 1986, there were significant changes in world trade, but trade policy failed to adapt. The Declaration that was issued at the conclusion of the GATT meeting on September 20, 1986 defined the new agenda for the eighth round of international trade negotiations. The deadline for completion of the next round of negotiations is four years from October 31, 1986, when the negotiations will officially begin. ²⁷

The issues on the new agenda reflect many of the changes in the international economy and the recognition that the international trading system needs new rules to cope with these changes. Let us review the changes in the system and the current agenda.

V.1.1 Increasing Importance of Trade

In all but two years since the second world war,

²⁷ For excerpts from the GATT declaration and a report of the close of the conference, see Clyde H. Farnsworth, "Wider Trade Talks Urged as Impetus to World Growth," New York Times, September 21, 1986, pp. 1, 11.

international trade has consistently grown faster than the world product. During the decade of the 1970s, the U.S. doubled its dependence on trade, and while the rate of increase may not be sustained, U.S. trade appears likely to continue to grow faster than the U.S. gross national product. Trade in the developing countries, particularly the newly industrialized ones, will grow still faster relative to world trade and relative to the growth of their gross national product.

As important as the increase in trade is the growing acceptance throughout the world of two facts. First, trade is an engine for economic growth. Those countries with the most rapid rates of growth of trade have also experienced the most rapid rates of economic growth. Secondly, to stimulate trade, a country not only needs to gain access to other markets, but it needs to open its own markets in order to become competitive. A measure of the growing awareness of these two insights is the increase in interest in joining GATT.

(1) Issue: Membership

GATT has grown dramatically-- from twenty-two members in 1948 to ninety-two in 1986. Although the Soviet Union had previously denounced GATT, it is currently requesting to observe or participate in the organization's deliberations. The involvement of countries, which trade through state agencies and price their products outside of the market, present new problems for the international trading system.

Actually, state-controlled economies pose many of the same

problems that are currently being debated in GATT, but they pose them much more sharply. For example, the increased role of the state in all countries combined with declining trade barriers have meant that a wider range of subsidies to a particular industry might have more of an effect on international trade. GATT has still not satisfactorily answered the questions of what is a subsidy, or what is an appropriate response by an importing country to an export subsidy. These problems are much more difficult to define and resolve when the State maintains complete control of the economy.

(2) Issue: Adjustment

As trade increases in importance, the oldest issue in international trade will remain central and most resistant to solution: how should the traditional sectors in the economy-- steel, autos, agriculture, textiles, shoes-- adjust to international competition? Should trade be "managed"? Should nations buffer these sectors with adjustment assistance and subsidies? Should nations allow these industries to be eliminated through international competition? Those are the key questions. Previous experience suggests that all nations will feel compelled to assist the declining sectors from complete destruction, but the question is whether the response prevents or permits orderly change.

(3) Issue: VERA's

In its declaration, GATT called for a standstill and a rollback on "trade restrictive or distorting measures." It also

called for the "eventual integration" of textiles and clothing into GATT. This is a commendable long-term objective, but in the short and medium-term, instead of trying to eliminate all voluntary export restraint agreements, it might be advisable to negotiate on the margins of such agreements. Governments should aim to increase the rate of growth of exports under the VERA's, and to limit the duration of the agreements. Industries should commit themselves to an adjustment plan during the interim period.

V.1.2 Greater Convergence of Factor Prices

The increasingly important bonds tying nations together through trade and investment are leading to a gradual convergence of factor prices of labor and capital. This means that small changes in the costs of production in one country-- either through government policies or changes in the exchange rate-- could create a large shift in trade with another country with important and immediate consequences for employment and production.

(4) Issue: Defining Subsidies

In the Tokyo Round of negotiations, the governments thought they had completed work on codes involving subsidies, injury, and dumping, yet almost none of these codes have been effective. Part of the problem is that the terms have still not been defined precisely enough to permit a verifiable and implementable agreement. Therefore, the next round will have to return to definitions, such as (a) What is a subsidy? (b) When is an

industry "injured" by competition, and what is the appropriate response? (c) What is "dumping?"

V.1.3 Changing Composition of World Trade

There has been a definite structural change in the economies of the industrialized countries and the composition of their exports. As manufacturing facilities have either moved to the developing world to take advantage of lower labor costs or have remained in the industrialized countries and become more automated, the U.S. and other industrialized economies have shifted toward services, including insurance, consulting, computers, engineering, construction, information, communications, public relations, etc. About a quarter of the \$2 trillion volume of international trade is now in services. The United States leads in this movement; 70% of its economy is now accounted for by services, and one-third of its exports.

(5) Issue: Services

Developing countries are very reluctant to open their markets to the new service industries until they have had an opportunity to develop their own. There is also concern that these industries -- especially in computers and telecommunications-- offer the U.S. the opportunity to influence or even dominate these countries in new and undesirable ways. On the other hand, the industrialized countries, especially the United States, are reluctant to open their markets to goods from the developing countries unless there is some reciprocity.

(6) Issue: Trademarks and Intellectual Property

With the increasing importance of the flows of information across national boundaries, questions are once again being raised about the protection of the product of inventors and authors. In the attempt to obtain new technological capabilities, some governments are requiring the wholesale transfer of new technology without regard to existing laws on patents and trademarks. Also, the publishing and reproduction industries have facilitated counterfeiting of books and videos, creating new problems for authors and producers as well. These issues will be addressed in the next round of trade negotiations.

V.1.4 The Newly-Industrialized Countries (NICs)

In the last decade, some of the world's most dynamic export-led economies have been the NIC's-- South Korea, Singapore, Taiwan, Hong Kong, Brazil, Mexico, and Argentina. As these economies grow more competitive, the U.S. will inevitably encourage their "graduation" to the full obligations expected of industrialized countries in GATT. If the NIC's want to compete with the U.S. in the U.S., then they have to permit a more open market for U.S. goods. The debt crisis has forced a postponement of this issue, but it will remain on the international agenda.

(7) Issue: Graduation

Should the newly competitive advanced developing countries "graduate" to full obligations in the GATT? Under what terms and conditions?

(8) Issue: Free-Trade Areas

The U.S. has already negotiated a special one-way free trade area with a number of countries in the Caribbean Basin. The U.S. completed negotiations for a free-trade area between the U.S. and Israel, and has begun similar negotiations with Canada. A decade ago the U.S. would have considered each of these initiatives a departure from GATT; now it considers these initiatives as a way to stimulate GATT. These negotiations obviously have important implications for Mexico.

V.1.5 Convergence of Trade and Investment.

The distinction between trade and investment is likely to break down in the future as multinational corporations increase their relative share of world trade. Multinational corporations not only account for one-third of the world product (in the non-Communist countries), but they have come to dominate world trade. In the case of the United States, for example, multinational corporations accounted for 90% of U.S. trade in 1977, and in the case of the United Kingdom, it was over 80%.²⁸ Moreover, a second implication of this convergence in factor prices is that trade in manufactured goods will grow increasingly differentiated. What this means is that multinational corporations will have a distinct advantage, developing innovations in one country and adapting them through their subsidiaries to the specialized needs of another country.

²⁸ United Nations Centre on Transnational Corporations, Transnational Corporations in World Development: Third Survey (N.Y., 1983), p. 6.

(9) Issue: Industrial and Sectoral Policies

During the 1980s, there was a short-lived debate on "industrial policy." In fact, the issue was defined in terms of whether the U.S. should undertake economic planning-- either at the macroeconomic or the microeconomic level-- as a way to either protect declining industries or to advance ("target") newly-emerging industries, like those of high technology. The aversion to planning by President Reagan combined with his re-election served to move attention away from these issues, but they will return, particularly if a major new problem emerges in a key industry. Should the U.S. help major industries that have been adversely affected by imports, and if so, how? Should the U.S. provide "seed" money or offer other stimuli to assist those new and innovative businesses that might someday be recognized as the cutting edge of modern business? If so, how?

V.2 U.S. Investment Policy: Trends and Issues

Three important trends characterize the changes in the flow of foreign investment in the last twenty years.²⁹ The trends suggest that U.S. foreign direct investment abroad is unlikely to be a salient issue in the next decade. The prevailing mood in the U.S. is that foreign investment in the U.S. is beneficial,

²⁹ These trends and issues are distilled from the following sources: United Nations Commission on Transnational Corporations, Recent Developments Related to Transnational Corporations and International Economic Relations, Report to the Secretariat, July 16, 1982 (E/C.10/1982/2); U.N. Centre on Transnational Corporations, Transnational Corporations in World Development: Third Survey (N.Y., 1983); and Robert Pastor, U.S. Foreign Investment in Latin America: The Impact on Employment, Institute for Latin American Integration, 1984.

and there is unlikely to be any strong movement toward regulating foreign investors in the U.S. either. Nonetheless, after considering the trends, one can identify a set of issues related to U.S. policy on outward investment that are likely to engage policy-makers. 30

V.2.1 Diminished Importance

The U.S. share of total world foreign investment peaked in 1960 when it represented about 59.1%. Today, it represents a little less than half of total world investment. Germany and Japan have increased their share most rapidly. The U.S., however, remains the largest foreign investor with \$221.3 billion in assets in 1982.

The growth of foreign investment in Latin America has not kept pace with the growth of the economies. From 1960 to 1981, Latin America's economy tripled in size. From 1957 to 1980, U.S. foreign investment in the region as a percent of Latin American gross domestic product declined by roughly half, mainly because of the large growth of Latin American economies. (Even these figures are deceptive since a large part of the foreign investment by the U.S. in the 1970s was composed of financial transfers to tax havens in the Caribbean.) In brief, in terms of foreign investment, Latin America has not only declined in its importance to the U.S., but U.S. investment has declined in

30 For an interesting study on trends and new proposals for foreign investment, see Theodore H. Moran and contributors, Investing in Development: What Role for Private Capital? (New Brunswick: Transaction Books, 1986).

importance to Latin America.

(1) Issue: The Nature of Protection

When the lives or property of U.S. citizens or corporations are harmed or jeopardized in a foreign country, the U.S. government under international law has a responsibility to protect them. The question is, how? In the early 20th century, the U.S. sent cruisers, gunboats, or marines to protect U.S. citizens or corporations. In the 1960s, the U.S. threatened to withdraw aid. In the 1970s, the U.S. encouraged U.S. corporations to look after their own interests. As for the protection of U.S. citizens, the U.S. government could not abdicate its responsibility. Instead, it negotiated exchange-of-sanctions" treaties with foreign governments; this permitted American citizens, who were convicted of crimes abroad, to serve their prison terms in the U.S.

As U.S. investment in developing countries declines in importance for the U.S. and for other countries, and as the relationship becomes more balanced, the key issue in the future will increasingly be how to rely on host governments to protect U.S. citizens and corporations abroad?

V.2.2 Geographical and Sectoral Shifts

There has been a shift in foreign investment away from the developing countries toward the industrialized economies. In 1950, 40% of all U.S. investment was in Latin America; by 1980, only 18% was in the region. By the mid-1970s, nearly three-quarters of all foreign investment was in the industrialized

countries, and 26% in the developing countries. The U.S. became not only the largest source, but also the largest recipient of foreign investment (over \$100 billion by the end of 1982). About 60% of the foreign direct investment originating outside the United States is now invested in it. ³¹

Latin America accounts for about one-third of the gross product of the Third World, but by 1980, it held more than 50% of the stock of foreign investment and two-thirds of U.S. investment in the developing world. Developing countries also developed some multinational corporations; by 1977, 20 of the top 483 firms were from the developing world. The U.N. Centre on Transnational Corporations, which was the major source of data and research on Transnational Corporations (TNC's), noted: "Direct investment is therefore no longer a flow from the developed market economies to the developing countries, but it is also a mechanism for promoting economic cooperation among developing countries." ³²

Foreign investment gradually shifted away from the extractive and natural resource sectors-- mining, petroleum, and agriculture-- and toward manufacturing, services, and finance. In 1950, 59% of all U.S. foreign investments in mining were in Latin America, and 38% of petroleum investments were in Latin America. By 1980, Latin America held less than 25% of all U.S. investments in mining and less than 10% of petroleum investments.

³¹ U.N. Centre on Transnational Corporations, Third Survey, p. 18.

³² Ibid., p. 22.

U.S. manufacturing in Latin America increased in value from \$781 million in 1950 to \$14.6 billion in 1980.

Latin America and the rest of the developing world gradually replaced dependence on foreign direct investment with a new reliance on commercial bank loans. Between 1967 and 1982, foreign direct investment in developing countries increased at 10% per year, but discounting for inflation, its real value showed no increase. In contrast, private lending increased by 9.5% per year in real terms throughout this period.³³ In 1970, the developing world had assumed an external debt of \$68 billion; by the end of 1985, the debt had risen to \$865 billion, with Latin America accounting for more than \$380 billion. The region's debt burden is its most dangerous and debilitating crisis, requiring annual payments of as much as 40% of Latin America's export earnings just to service the debt. This has prompted some governments to adopt new policies encouraging foreign direct investments.

For a variety of reasons, multinational corporations have begun to "unbundle" the foreign investment package-- management, equity, technology, marketing, etc. There has been a growing trend toward non-equity arrangements, such as licensing of technology, construction contracts, turnkey and product-in-hand contracts, and franchising.

(2) Issue: National Treatment

As foreign direct investment has become more versatile and

³³ World Bank, World Development Report, 1985, p. 26.

adaptable, it has also become more attractive to the developing countries. A new concept has emerged -- "national treatment" -- to address the TNC across national borders. "National treatment" refers to equal and non-discriminatory treatment between foreign and domestic corporations. The industrialized countries favor the concept, but most developing countries fear that if they treated TNC's like local corporations, the former would overwhelm the latter. It is possible that the concept of "national treatment" might eventually play a role for foreign investment policy similar to that played by the most-favored-nation principle in trade policy. And perhaps, during the negotiations for a code of conduct, it might be possible to develop a two-tiered approach (similar to tariff preferences) on national treatment of corporations in developed and developing nations.

(3) Issue: Encouragement or Neutrality

With the changes that have occurred in the composition and direction of foreign direct investment, U.S. policy toward outward investment has returned to a primary question: whether to encourage, discourage, or affirm a neutral position. Each of these options has important implications for other policies. If the U.S. encourages foreign investment, then it must assume some obligation for protecting it. If the U.S. discourages foreign investment or is neutral, then its arms length posture offers more space for the host government and the corporation to make private arrangements.

V.2.3 Regulation

During the last two decades, all of the nations of the world have increased their regulation of foreign investment.³⁴ In the Third World, Latin America took the lead in nationalizing the key sectors of natural resources, utilities, and communications. (Most of the industrialized countries, including the U.S., had already reserved these sectors in their own countries for domestic or state-run firms.) This trend toward increased control undoubtedly discouraged some investments, and was probably one of the reasons for the shift away from the developing countries and away from the extractive sector. But by and large, multinational corporations have made their investment decisions in Latin America using economic criteria-- large markets and low labor cost. There has been more foreign investment in those developing countries with strict restrictions but large markets than in those countries with few or no regulations and small markets.

(4) Issue: Conflicts of Jurisdiction

By definition, the transnational corporation works in several countries, and is therefore subject to more than one legal jurisdiction. As countries regulate more of their own economies, an important issue will be to develop a coordinated response to the oligopolistic behavior of large corporations that operate across borders. With respect to the U.S., the issue

³⁴ U.N. Centre for Transnational Corporations, Third Survey, p. 40.

is whether to extend the Anti-Trust laws to activities by U.S. or other corporations engaged abroad?

(5) Issue: Taxes

One consequence of transnational investments is that governments need to decide how to divide the taxes on profits? This is not only an issue for national governments; it involves state and local governments. Indeed, the most difficult recent tax issue -- the unitary tax rule-- was raised by state governments within the U.S. This issue is unlikely to yield to any single or simple formula, but guidelines-- perhaps as part of a code of conduct-- could reduce the area of disagreement.

V.3 U.S. Aid Policy: Issues and Trends

There are three key trends in the U.S. foreign aid program, and each poses a different set of issues:

V.3.1 Bilateral Aid

First, the bilateral aid program is increasingly used for political and security purposes, and in the last few years, the U.S. has stressed the importance of bilateral aid more than multilateral aid. Moreover, there has also been a significant shift toward military aid.

(1) Issue: Distribution

The issue for the future of bilateral aid relates more to the political-security framework in which it is used than to economic development. The issue will therefore be whether the U.S. should provide aid to country X, and if so, how much, and under what conditions?

V.3.2 International Development Banks

With the exception of a period of neglect at the beginning of the Reagan Administration, the U.S. has been consistently one of the major supporters of the international development banks, which will remain at the forefront of the global development effort. In the early 1970s, U.S. bilateral aid amounted to about \$5 billion, while the international development banks loan about the same amount. U.S. bilateral economic aid remains at about the same level, while the international development banks loan about \$20 billion each year.

(2) Issue: The Future of the Banks

The debate on the development banks will be many-sided. Should more money be given to the development banks-- both absolutely and relatively? Who should decide what direction the International Development Banks should take? What development strategy should be supported? ³⁵

V.3.3 Private Sector Aid

Historically, the U.S. has encouraged private investment to supplement the aid program. However, recently, the U.S. has begun to use the aid program to foster private sector activities.

(3) Issue: Mixed Credits and Purposes

When the U.S. has tried to use the private sector for public purposes, it has sometimes found that the private sector

³⁵ For a discussion of both sets of issues and some new ideas, see John P. Lewis (ed.), Development Strategies Reconsidered (New Brunswick: Transaction Books, 1986); and Richard E. Feinberg (ed.), Between Two Worlds: The World Bank's Next Decade (New Brunswick: Transaction Books, 1986).

has tried to use the government for its own private purposes. This is to be expected, but the U.S. government should anticipate such issues and decide on the appropriate rules of the game at the beginning.

There are, of course, ways for the government to extend its own assistance by combining its aid in imaginative ways with private investment. Here, the issue is whether new packages of mixed credits-- some grants, some loans from private and public sources-- would be an effective tool for development.

VI. Policy Implications

"World images that have been created by ideas have, like switchmen [on a railroad] determined the tracks along which action has been pushed..."

Max Weber

The answers to the questions posed by the current debates in the U.S. on trade, investment, and aid will have important consequences for Latin America and for inter-American relations:

--If the U.S. should choose to raise its trade barriers, the prospects for Latin American export-led growth in the next decade would be considerably diminished.

--If the U.S. should choose to use its considerable leverage to "persuade" Latin America to privatize all its parastatal corporations and to eliminate all restrictions on foreign investment, that could affect the region's political stability and infrastructural capacity.

--If the U.S. should choose to significantly reduce its contribution to the international development banks, Latin America would have significantly less resources for investing in its future.

In brief, the outcomes of the current debates in the United States on its foreign economic policies are crucial to Latin America and to inter-American relations. It follows that Latin America ought to monitor the debate and, at appropriate moments, communicate its concerns and interests in the United States in a legitimate and effective way. This is frankly not only important to Latin America, but also to the United States because the debate in the U.S. is sometimes skewed toward short-term and particularistic interests. If Latin America were effective in articulating its long-term interests in a more productive economic relationship with the U.S., such a message might influence U.S. decision-makers to attach greater weight to its long-term national interests.

To be effective in the American political system, it is necessary to understand the issues, follow the debate closely, distinguish between the consensual values that undergird and shape the debate and the superficial arguments made to different audiences, and identify the decision-makers and the moments when influence is most effective. In this part, I will explain how this can be accomplished while addressing the following three sets of questions:

-- (1) how should the debate be monitored? What

questions should be asked and to whom? what information should be requested?

-- (2) how can the debate be understood? How can one distinguish between harmless bills and effective efforts to change U.S. policy? How does the policy process work? how important are interests, values, ideas, and bureaucratic or domestic politics? how can one tell the signals from the policies --the man crying wolf from the wolf at the door? Which policies are most likely to effect Latin America seriously and adversely?

-- (3) how can one influence the debate in Congress, the Executive, and in the public? What is the best way to follow and influence the administrative decision-making process? how can the issue be posed so as to produce the most desirable outcome for developing countries? What is the most appropriate and effective way for Latin America to respond when a U.S. company petitions the International Trade Commission for relief against imports from Latin America? What should Latin America do to influence the U.S. to adopt policies that would contribute to an international economic system that would most favor the interests of Latin America?

VI.1 Observing and Monitoring the Debate

Changes in the international economic system are rapidly transmitted to each country as either a cost or a benefit. Generally, the groups in the U.S. that feel the adverse changes first are outside of Washington, but in time, they bring their

concerns to the capital. Tracking new issues in the hinterlands, therefore, is neither necessary nor economical. There are two better ways.

--First, one can speculate as to the new issues that are emerging from a good analysis of economic trends.

--Secondly, one can monitor the Congressional debate. Congressmen are elected to judge the temper of their constituents' concerns; they are only re-elected if their constituents decide that they are listening. Thousands of bills are introduced each year for no larger purpose than to demonstrate to the people back home that their Congressmen or Senators are aware of a group's predicament and want to help.

Therefore, the first place to begin monitoring newly emergent issues is in Congress. The Congressional Record provides a daily record of the debates and votes in Congress, the bills introduced, and the hearings held. The best place to find concise summaries of crucial debates is the Congressional Quarterly Weekly Report. The best single journal for reading contemporary case studies on U.S. foreign economic policies is the National Journal; these case studies identify the crucial actors on each issue and describe the state-of-play. In addition, there are several very good international economic and law journals that follow the current debates.

Washington is literally deluged by lobbyists, public relations firms, and consultants, who produce many newsletters on a wide range of issues. International economic issues are among

the most widely discussed. One does not need to re-discover or duplicate the work that is going on; all one needs to do is to identify the best reporters (newsletters, consultants, etc.) and pay for that service. All the people who write such newsletters should be invited to demonstrate their services, and then those which are the least expensive and most useful should be used.

VI.2 Understanding the Debate

Because there are more signals than policies in trade, investment, and aid, it is essential to be able to distinguish between them. Which of the many bills introduced by Congress are likely to be accepted as policy? To answer this question, one needs to understand how the decision-making process works.

Briefly, U.S. foreign economic policy is the product of a debate that is influenced by four factors: ideas, interests, the mechanics of decision-making, and events or decisions.

VI.2.1 Ideas / Consensual Values.

One should not under-estimate the role of ideas or consensual values in the debate. The most powerful ideas become conventional wisdom; they are consensual values or assumptions about the world, which shape the way Americans view issues. Each of the issues we have discussed has a shared value.

VI.2.1 (1) For trade policy, the most important idea or consensual value is: U.S. prosperity is tied to freer and fairer trade in the world. While individual decision-makers, e.g. Congressmen and Senators, may recommend raising U.S. barriers, Congress as a whole and the President will reject

such proposals because of common perceptions of the history of trade policy-- notably the disastrous consequences of Smoot-Hawley. In a speech in October 1985, Undersecretary of State Allen Wallis reminded his audience of Smoot-Hawley, and then said: "Ronald Reagan has experienced the same history, and I can assure you that not once in many discussions of trade policy have I heard him fail to refer to the Smoot-Hawley tariff and its sequel." ³⁶

This common perception has been reinforced by the power of the idea that nations prosper by more competition rather than less, by lower barriers rather than higher. The idea and the perception combine to form a consensual value.

However, there is another side to that value, which is neglected only at the risk of misunderstanding the debate: freer trade benefits the U.S. only if it is fairer trade. "Fairer trade" means playing by the rules, and it has three dimensions: First, fairer trade means that the U.S. does not lower its barriers unilaterally; other nations must give the U.S. comparable access to its markets if they want the U.S. to open its markets. Secondly, fairer trade means that U.S. producers will not be jeopardized by exports that are subsidized by home governments. Thirdly, fairer trade means that the system should continue to open, but only at a gradual pace. Dramatic "surges," such as when Japanese auto exports expanded from 12% of the U.S.

³⁶ U.S. Department of State, Bureau of Public Affairs, Address by Under Secretary Allen Wallis, "Open Markets: Key To A Stronger, Richer, and Freer America," October 10, 1985.

domestic market to 22% in just three years are unacceptable, particularly if this occurs in a major industry. Since the passage of the Reciprocal Trade Agreements Act in 1934, Congress has always insisted on the need for an "escape clause" to protect individual industries from "surges" and unfair trade practices. In 1948, the U.S. wrote this principle into GATT.

The concern for "fairer" trade is often interpreted as protectionism, but that is an error. Effective maintenance of the international trading system requires respect for the rules, and one of the most important set of rules concerns the "escape clause," which is designed to protect industries from "import surges" and unfair trade practices. To ignore fairer trade in the quest for freer trade would be ultimately self-defeating.

VI.2.1. (2) For foreign investment policy, two consensual values shape the debate in the U.S. First, international corporations should receive "national treatment," and secondly, other governments have the right and the responsibility to protect their citizens and corporations abroad. Foreign investment policy has not been subjected to the kind of intense debate over a protracted period as has occurred with trade policy. Therefore, investment policy is not only less coherent, but these two consensual values remain vague, imprecise and unhelpful as guideposts for international investment policy. And indeed, much like freer and fairer trade, these two principles of investment can be viewed as contradictory. How can a U.S. corporation expect to be treated the same as a local

corporation while demanding special diplomatic assistance? Nonetheless, to understand and influence the debate on U.S. investment policy, one needs to begin by understanding these two values.

For those Latin American governments that have problems with both concepts, a good approach would be to examine the U.S. inward (host government) investment policy. Since there are few, if any, Latin American multinationals that could be affected by U.S. inward investment policy, Latin American governments might want to seek advice from Europe on the maze of inward investment policies applied by the U.S.

Through such an exercise, Latin Americans might not only better understand the similarities between U.S. and Latin American inward investment policies, but also the differences. Moreover, it might help the U.S. to understand the Latin American perspective better. If these differences in policy can be justified clearly in terms of the different levels of development, then both the U.S. and Latin America might make some progress on developing rules that could be applicable to international investment everywhere. In trade policy, the U.S. has accepted a preference system for developing countries; perhaps a comparable, two-tiered system might be possible for investment policy as well.

VI.2.1 (3) For U.S. aid policy, the consensual value that undergirds the debate is that the U.S. ought to gain something for giving something. The various purposes of U.S. aid

policies have been described above; in most cases, the U.S. hopes to promote the development and security of friends and deter enemies. A crucial distinction is between urgent interests and long-term interests; increasingly, the bilateral aid program is used to serve the first; and the international development banks, the latter. From Latin America's perspective, it may therefore be more adviseable to encourage the U.S. to make larger contributions to the international development banks rather than try to change the direction of its bilateral aid program.

VI.2.2 Interests.

While some tend to speak of a nation's interests or its security as if it could be written on a single tablet and placed in a holy temple, the fact is that national security or a nation's interest varies with its author. Presidents, scholars, and Congressmen-- all define the national interest differently because of who they are, where they sit, and when they decide. However, just because the "national interest" is not fixed and finite does not mean that it is entirely subjective. There are certain factors-- geography, political culture, social mores and divisions, among others-- that establish the parameters within which individuals define the national interest.

Cognizant of these parameters, former Secretary of State Dean Acheson defined both the ends and the means of U.S. foreign policy in a simple and unobjectionable manner. Acheson wrote that U.S. national interests are "to maintain as spacious an environment as possible in which free states might exist and

flourish." The means should be "common action with like-minded states to secure and enrich the environment and to protect one another from predators through mutual aid and joint effort."³⁷

Nonetheless, such a definition does not have much operational significance; it does not help, for example, to decide the debates on the current issues. Indeed, people on both sides of the debate could, and do, argue that the national interest is better served by their approach.

The crucial question is what kind of nation do people want? It is easier to define the national interest more concretely after answering that question than before. If North Americans want a nation that is prosperous, free, and capable of leading the world toward prosperity and freedom, then U.S. interests would be weighted on the side of those who want to lower barriers to trade and investment and make more investment resources available to the developing world. As the most powerful and wealthiest nation in the world, the U.S. should welcome competition. Defined in that manner, U.S. national interests converge with the consensual values or ideas that undergird U.S. foreign economic policy.

However, in monitoring the debate in the U.S., it is important to recognize that there is a wholly different definition of the national interest that would pull the U.S. in a different direction. Some believe that U.S. interests in

³⁷ Dean Acheson, Present At The Creation: My Years in the State Department (A Signet Book from New American Library, 1970), p. 923.

freedom and prosperity are better served by being less open to the world and by giving less aid. Between these two definitions lies the debate and the capacity to influence it.

VI.2.3 The Mechanics of Policy-Making

The bureaucraties and mechanics of decision-making-- the process by which the representatives of the American people make policy-- ensures that the debate on national interests will never be concealed. On the contrary, the process puts a premium on open and vigorous debate. Collective interests seem most at risk in such a decision process, but in fact, they manage to prevail over particular interests in almost every key debate. However, these public debates are probably very confusing for those unfamiliar with the way the U.S. resolves such questions.

There are many fissures in the political process that are subject to influence. The differences between the State Department and the domestic departments-- like Commerce and Treasury-- are reflected in the differences between various committees in Congress. Foreign governments will undoubtedly find a more sympathetic hearing from those in the U.S. government-- like the State Department or the Senate Foreign Relations Committee-- whose orientation is international. But they have made a serious mistake if they fail to communicate with those departments and Congressional committees with a domestic orientation, or to allow those in the U.S. government like the State Department to make one's case for them. An effective group or government will not hesitate to communicate its concerns itself to every critical

decision-maker.

Though there are many important debates on U.S. foreign economic policy in the government, the two most important separate Congress and the President, and the Democratic and Republican parties. One can identify certain biases or missions in each of these institutions that explains the role each plays in the debate.

With regard to the issues of trade, investment, and aid policies, Congress generally pushes the President to be more sensitive to declining sectors, more aggressive with our trading partners, more even-handed with petitions for relief from injured industries, more concerned about foreign take-overs, more protective of U.S. citizens and corporations abroad, and more niggardly with aid. The President, in turn, tends to push Congress to provide him more negotiating flexibility over longer periods of time, to be more patient with our trading partners, more aware of our general national interests in freer trade and investment and less sensitive to particular interests, and more generous in providing aid.

Each institution, in brief, guards one dimension of the shared values of the United States, and thus neither institution can claim-- though both do-- that they alone represent the national interests of the U.S. Together, in debate, and by way of a continuous interactive process, the two Branches negotiate U.S. foreign economic policies. The process has worked well, and the results therefore reflect the national interest.

Overall, the consequence of the debate has been that Congress has given the President the discretion and the flexibility he feels he needs to pursue the national interest, and the President has assured Congress that he would not ignore or overlook particular interests.

Whereas the debate between Congress and the President is mainly a struggle for prerogative, the debate between Democrats and Republicans is more substantive, changing, and, of course, political. Both parties seek to align themselves with the American people, or rather what they perceive the American people presently want and are likely to want in the future. While adjusting to the public mood, neither party can stray too far from its constituent base, and thus, one can identify certain political or ideological tendencies in both.

Republicans, particularly under President Reagan, have sought to weld together two contradictory tendencies: to be dedicated to less government while being activist. They try to use the power of the state to reduce the power of the state both at home and abroad. Therefore, theoretically, they aim to reduce government expenditures and reduce and eliminate all international barriers to free trade and investment. As to foreign aid, they believe it should be used either for security purposes-- to help friends under attack, or to attack or deter enemies-- or to promote the private sector.

Democrats tend to believe that governments have an important role in trying to solve collective problems. They accept the

importance of free markets, but they also believe that government should aim to correct the social problems-- economists call them "externalities"-- that cannot be solved by just private decisions.

Therefore, in terms of trade policy, while agreeing to the importance of free trade, Democrats tend to be more sensitive to its social costs. They tend to advocate more assistance and a more active industrial policy to help declining sectors adjust to the adverse effects of trade. To signal that the Democratic party is aware and sensitive to the plight of trade-impacted industry and labor, which are generally in the Northeast or Midwest, two Democratic strong-holds, Democrats are impelled to be more activist in trade policy: they tend to threaten U.S. trading partners more that they will raise barriers unless our partners reduce their own barriers.

With regard to investment policy, Democrats agree with Republicans on the importance of foreign investment abroad and the need to reduce restrictions on such investment. However, Democrats also believe that governments have important roles to play in promoting development. Therefore, they don't give as high a priority as do Republicans to persuading developing countries to eliminate all restrictions on foreign investment and to privatize. Finally, on foreign aid policy, Democrats tend to place greater value on long-term development aid, less on security assistance, and more on international development institutions.

As between Congress and the President, the differences between the Democratic and Republican Parties on foreign economic policies are not as dramatic as they appear in the debate. Rather, each Party and Branch tend to stress one side of the shared value, and through an interactive process, the policy generally accomodates both sides, though not equally.

VI.2.4 Events

Besides shared values, interests, and the decision-making process, the crucial fourth variable for understanding U.S. foreign economic policy is events or decisions. It is a mistake to think that the debate on U.S. foreign economic policy is influenced solely by words, or that it is somehow disconnected from the world, or that the debate is fought between static interests -- international corporations and small, vulnerable businesses. To the contrary, the debate varies in response to some changes in the world and the absence of other changes.

For example, the current debate on U.S. trade policy is partly a response to the unprecedented trade deficit by the U.S., particularly with Japan. If that deficit were reduced, perhaps by the realignment of currencies, the pressures for a new policy would be diminished. The widening trade deficit stimulated the debate on trade, but that debate took its shape as a result of the other three variables-- shared values, interests, and the mechanics of policy-making. Therefore, some proposals in Congress seek to strengthen the U.S. ability to retaliate against nations using unfair trade practices; some

propose quotas or tariffs against Japan as an inducement for it to reduce its surplus and accept more imports; and others press for a new round of trade negotiations.

VI.3 A Strategy

We now have a reasonably clear roadmap for locating U.S. foreign economic policy and for influencing it. The next steps are, first, to monitor the U.S. debate and dialogue with U.S. decision-makers. Secondly, one needs to think about substantive trade-offs and strategies that will permit Latin America to play a constructive and effective role in deciding on the evolution of the international economic system.

Before taking any steps, however, Latin America needs to decide that U.S. foreign economic policy deserves its priority. This is currently not the case. If such a shift in priorities were to occur, the United Nations Economic Commission for Latin America and the Caribbean (CEPAL) would have an important role to play. A strategy is presented below on what it could do.

V.3.1 Resident Fellows

To expand its capability and assist Latin America and the Caribbean to understand the U.S., CEPAL should provide at least two fellowships each year. One would be for a government official from Latin America and the Caribbean to spend one year in Washington studying the U.S. foreign economic policy process. The government Fellow should be encouraged to spend nearly half of his time interviewing and talking with people in Washington and should organize a seminar program that would bring speakers

to the CEPAL office to talk about different aspects of U.S. foreign economic policy.

The second Fellowship should be for Latin American and Caribbean Ph.D. candidates who have completed all their course work and some of their preliminary work on their dissertation. Their dissertation should, of course, be on some aspect of contemporary U.S. foreign economic policy or policy-making, and these Fellows should also be encouraged to leave the library and interview as diverse a group of people as possible.

V.3.2 Advisory Group

For the CEPAL office in Washington to remain at the cutting edge of U.S. foreign economic policy, it is critically important that the staff step back from their day-to-day activities every six months for two days of a "retreat" with an Advisory Group. The Advisory Group should be composed of 12-20 scholars, businessmen, international civil servants (including people from other regions, for example, Japan and Europe), a few Latin American government officials, and former U.S. government officials. About half should be from the United States.

The meetings should be held outside of Washington, and each one should offer a deliberately regional (say, the West Coast, mid-west, or South) perspective with a few guests invited from these regions to speak about how U.S. foreign economic policy looks from their perspectives.

The "retreats" should be carefully and effectively staffed by the CEPAL office. Issues and a tight agenda should be

identified beforehand, and important articles, data, and other information should be sent to the Advisory Group at least two weeks in advance of the meeting. The basic purpose of the meeting would be to discuss trends in the international economy, the current issues and debates in U.S. foreign economic policies, the current issues and debates in Latin America, future issues to monitor, and ideas for what more could be done to strengthen inter-American economic cooperation.

V.3.3 Lobbyists

The question is raised about whether Latin American governments should hire lobbyists to represent and pursue their interests in the U.S. For issues dealing with legal or administrative matters, it is advisable for Latin American exporters or governments to hire American lawyers, provided that they work with Latin American lawyers. On issues of Congressional policy, lobbyists could provide useful information on the key actors, their constituencies, and flexibility; they could offer a more detailed map of the political landscape.

But there is no reason that Latin American governments should hire lobbyists to lobby on their behalf; there is no better lobbyist than the Ambassador of a country. A lobbyist might help to point the Ambassador in the right direction and offer some insights on the correct approach, but it is the Ambassador who should be communicating his government's concerns.

VI.3.4 Substantive Trade-Offs

If the organizational mechanism works effectively, within

six months to one year, Latin American governments acting either individually or as a group should begin to think more systematically about how to influence the debates in the U.S. so as to advance their economic interests.

The first stage in trying to influence the debate is to communicate a government's concerns and interests and hope that these will be taken into account. The second stage should be to begin sketching substantive trade-offs-- what Latin American governments might consider conceding in order to obtain U.S. cooperation, and vice versa.

This second stage should be subject to the widest possible consultations-- involving Latin American government officials, the Advisory Group, and Washington policy-making officials. The key questions are the very substance of policy and interests: what does Latin America want? and what can it expect to receive? Both questions can be answered in the abstract, but the answers would be academic. To be realistic, the trade-offs need to involve hard thinking and decisions.

For example, the United States will continue to press the newly-industrialized countries (NIC's) to graduate to full responsibilities in the international trading system. This means that the NIC's would have to lower their trading barriers while at the same time, renouncing tariff preferences. Latin America is strongly opposed to graduation, but it is coming. The outcome has only been postponed because of the debt crisis.

The question is whether Latin America could obtain something

in exchange. Latin America ought to argue that the U.S. is forcing graduation at the same time that the U.S. is widening and deepening its voluntary export restraint agreements. Latin America would be well positioned to request a dismantling of these VERA's for Latin America (a maximal position) or at least changes in the VERA's that would permit Latin America a 6-10% rate of growth.

A second example regards the issue of services. If the nations of the world close their markets to the services of the U.S., and refuses to negotiate, then one could hardly expect the U.S. to permit complete access to its markets. In exchange for negotiations on services, Latin America might consider asking the U.S. to lift its barriers to Caribbean sugar and other Latin agricultural products.

With regard to aid policy, the international development banks might receive a more favorable reception in Congress if Latin American governments tried to communicate to Congress about the importance of the international development banks for their countries' past and future development.

There is much that could be accomplished the moment Latin America and the U.S. begin to communicate more effectively across their borders and across the full spectrum of U.S. foreign economic policy issues.

SELECTED BIBLIOGRAPHY

Raymond J. Ahearn, Trade Issues in the 99th Congress (Washington, D. C.: Economics Division, Congressional Research Service, Library of Congress, November 27, 1985).

Shailendra J. Anjaria, Naheed Kirmani, and Arne B. Petersen, Trade Policy Issues and Developments (Washington, D.C.: International Monetary Fund, Occasional Paper No. 38, July 1985).

Graham Allison and Peter Szanton, Remaking Foreign Policy: The Organizational Connection (N.Y.: Basic Books, 1976).

Raymond A. Bauer, Ithiel de Sola Pool, and Lewis Anthony Dexter, American Business and Public Policy: The Politics of Foreign Trade, 2nd ed., (Aldine-Atherton, 1972).

C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, American Multinationals and American Interests (Washington, D. C.: Brookings Institution, 1978).

C. Fred Bergsten and William R. Cline, Trade Policy in the 1980s (Washington, D.C.: Institute for International Economics, November 1982).

Centro de Investigacion y Docencia Economicas (CIDE), America Latina-Estados Unidos: La Agenda Economica, Cuadernos Semestrales, Mexico, Numero 16, 2 semestre 1984.

Stephen D. Cohen, The Making of United States International Economic Policy: Principles, Problems, and Proposals for Reform (N.Y.: Praeger, 1977).

I. M. Destler, Haruhiro Fukui, and Hideo Sato, The Textile Wrangle: Conflict in Japanese-American Relations, 1969-71 (Ithaca: Cornell University Press, 1979).

I. M. Destler, Making Foreign Economic Policy (Washington, D. C.: Brookings Institution, 1980).

Jessica Pernitz Einhorn, Expropriation Politics (Lexington Books, 1974).

Richard E. Feinberg (ed.), Between Two Worlds: The World Bank's Next Decade (New Brunswick: Transaction Books, 1986).

Griffenhagen-Kroeger, "Cases on a Decade of U.S. Foreign Economic Policy: 1965-74," Murphy Commission Report, Vol. 3, Appendix H.

John P. Lewis (ed.), Development Strategies Reconsidered

(New Brunswick: Transaction Books, 1986).

Charles Lipson, Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries (Berkeley: University of California Press, 1985).

Abraham F. Lowenthal and others, "The Making of U.S. Policies Toward Latin America: The Conduct of 'Routine' Relations," Commission on the Organization of the Government for the Conduct of Foreign Policy, June 1975, Vol. 3, Appendix I.

Theodore H. Moran and contributors, Investing in Development: New Roles for Private Capital? (New Brunswick: Transaction Books, 1986).

Peter Morici and Laura L. Megna, U.S. Economic Policies Affecting Industrial Trade: A Quantitative Assessment (Washington, D.C.: National Planning Association, 1983).

Kenneth Oye, Robert Lieber, and Donald Rothchild (eds.), Eagle Resurgent? The Reagan Era in American Foreign Policy (Boston: Little, Brown, and Company, 1987).

Robert Pastor, Congress and the Politics of U.S. Foreign Economic Policy (Berkeley: University of California Press, 1980).

Robert Pastor, "The Cry and Sigh Syndrome: Congress and Trade Policy," in Allen Schick (ed.), Making Economic Policy in Congress (Washington, D. C.: American Enterprise Institute, 1983).

Robert Pastor, U.S. Foreign Investment in Latin America: The Impact on Employment (Buenos Aires: The Institute for Latin American Integration, 1984).

Ernest H. Preeg (ed.), Hard Bargaining Ahead: U.S. Trade Policy and Developing Countries (New Brunswick: Transaction Books, 1985).

George Shultz and Kenneth W. Dam, Economic Policy Beyond the Headlines (N.Y.: W. W. Norton, 1978).

Robert A. Pastor

Robert Pastor is Professor of Political Science at Emory University and Director of the Latin American and Caribbean Program at the Carter Center of Emory.

Dr. Pastor received his Ph.D. in Political Science from Harvard University. He has taught at Harvard and the University of Maryland, and in 1985-86, he was a Fulbright Professor at El Colegio de Mexico. He is the author of Congress and the Politics of U.S. Foreign Economic Policy and the editor of The Unexplored Connection: Migration and Development in the Caribbean.

Dr. Pastor served as the Director of Latin American and Caribbean Affairs on the National Security Council from 1977-81. He was the Executive Director of the Linowitz Commission on U.S.-Latin American Relations from 1975-76.