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FOREIGN ATTITUDES TOWARD U.S. FOREIGN ECONOMIC POLICY

Mr. John E. Chadwick

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Reviewed by Col R. W. Bergamyer, USAF on 5 March 1964.

INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

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FOREIGN ATTITUDES TOWARD U.S. Foreign Economic Policy

26 February 1964

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Reviewed by Col R. W. Bergamyer, USAF Date: 5 March 1964
Reporter--Grace R. O'Toole

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MR. FREERS: Gentlemen: This morning we are going to hear about what other countries think about our foreign economic policies.

This lecture is particularly well timed. Our speaker is the representative of a country that has just been dealt a staggering American retaliatory blow for its attitude toward one of our economic policies.

Mr. Chadwick is the Commercial Minister at the British Embassy, but he is speaking today generally in his capacity as British Representative of EFTA, the European Free Trade Association.

Mr. John E. Chadwick.

MR. CHADWICK: My subject, as you know, is Foreign Attitudes Toward U.S. Foreign Economic Policy. In describing the scope of the subject set for my lecture, your program uses the word "conflict." This is a strong word. It is true that in the daily newspapers we may read not only about the miseries of Viet Nam and Laos and Cyprus and the Congo but also about the chicken war, about the dispute about tariff disparities and excess materials and the Kennedy Round, about critics of the Soviet Union and trade with Cuba, and about trans-Atlantic shipping freight rates.

My task is to analyze these questions and to see, if I can, where we might go from here.

I take it you have all read the Congressional Paper of 1962 on Foreign Economic Policy for the Sixties. So have I. But it was only when I had prepared about half my lecture that I learned that the paper

was to be your homework for today. What I say will be illustrative of it rather than a commentary on it. It contains an admirable exposition of the economic consequences for the United States of the development of the Common Market in Europe, but it takes for granted the international setting in which world trade is conducted.

I hope, therefore, it may be helpful if I start right from square one by setting out the background to the questions discussed in the Congressional Paper before I come to the substantive matters of current international contingencies, which you are all yearning to hear about.

Now, foreign economic policy is basically concerned with trade and commerce, with buying and selling, with organizing the means of payment through international banking, with access of business men to the markets of other countries, and the movements of ships and aircraft.

Business men and bankers compete hotly with one another for trade but, at almost all times in history, governments have taken a close and often paternal interest in promoting the prosperity of their own citizens. After all, if they are not prosperious they won't be able to pay the taxes. The supervision of trade in one way or another is thus, as a rule, a principal concern of government activity.

This century has brought a new factor into the equation. World commerce and communications have grown to such an extent that the prosperity of the small country depends completely on the prosperity of the great, and vice versa. The world is economically interdependent. For example, the American economic recession of 1959-60, just a drop in

the levels of construction and machine building, and a slowing of the growth in employment caused a reduction in imports into this country, and the world suppliers of raw materials found that they could not sell at the same prices as before. Their income dropped. They in turn had to cut down their import and investment programs. So exports of machinery and equipment from the United States and other industrial countries tended to fall. There was a chain reaction which could be stopped only by measures to stimulate internal demand in the United States.

I have the impression that it is only now, in 1964, that world prices of raw materials are recovering from that U. S. recession of 1959-60. So federal officials carry a responsibility which goes far beyond the shores of America, and the same applies to a less degree to countries like Britain and Germany, and many others.

The present structural basis for the trade of the free world is the Bretton Woods Agreements of 1944. These agreements postulated that the great depression of the early thirties and the disasters which followed were the consequence of a slavish adherence to an obsolete concept of the monetary gold standard and of the measures restrictive of trade which governments took to defend that standard, leading to worldwide unemployment and economic distress, and that what the world needed was a plan to make it possible for governments to maintain full employment and a highly active economy, together with international measures to help to overcome balance-of-payments difficulties and to remove barriers to trade.

These ideas led to three things: The International Monetary Fund,

The International Bank for Reconstruction and Development, and the negotiations of the Havana Charter for the establishment of an international trade organization, which was to regulate the conditions on which governments might use tariffs, quotas, and other protective devices and to promote free and equal opportunities for world trade.

The International Monetary Fund and the World Bank are now, as you know, flourishing institutions which grow in stature year by year. They have enjoyed the fullest support of their chief stockholders, who are the leading countries of the Western world. They have been of enormous service to the world in insuring that the means exist to pay for the remarkable increase which has taken place in world trade since they came into existence.

Much the biggest part of the world's foreign trade is done in one of two currencies--dollars or pounds sterling. Moreover, and partly for this reason, these two currencies are the principal form, other than gold, in which many countries keep their monetary reserves. It matters to each of our countries to support the strength of both our own currency and our partner's in the interest not only of our own economic power and so of our military and political power but also of the general stability and strength of the free world.

On this point the Congressional Report writes that, "Nations the world over hold their savings in dollars, and they finance a good part of their trade in dollars." I must point out that a good many nations the world over hold their reserves in sterling and those that do not trade in dollars generally trade in sterling.

Looking ahead and bearing in mind the expected increase in population and foreign trade, governments may think it desirable to make further reforms to the international monetary system. There is a problem which the experts have now begun to think about, and that is how to insure that the means of payment keep up with the growth of trade. There are about as many theories as there are experts. This is the question which both the IMF staff and the governments of the main trading countries of the world are now studying.

As I was saying, the IMF and the World Bank are now well established and floourishing institutions. The International Trade Organization, on the other hand, miscarried. The United States Senate would not ratify the Havana Charter, and without the world's leading trading nation it could not be brought into effect. The reason was that it contained provisions about supporting world commodity prices and about state trading which were not acceptable to American opinion.

While waiting for the ratification which never came, and in order to start the urgent task of negotiating reductions in tariffs to get trade started again after the war, most of the signatories of the Havana Charter, including the United States, entered into a provisional agreement to bring into effect those parts of the charter which did not need, or which enjoyed, the approval of the United States Senate. This was the General Agreement on Tariffs and Trade, or GATT, signed at Geneva in 1947 by 24 governments. It was expected to last only a few months. It has lasted 17 years. Its membership has doubled and it is still going strong.

The GATT establishes rules to prevent a government giving more favorable treatment to the goods of one member country than of another. It provides, subject to various qualifications, for the removal of quotas and quantitative restrictions and for the discussion among the members of any and all trade problems arising between them. The GATT has also arranged a series of multilateral negotiations for the reduction of tariffs which have been, on the whole, very successful and have contributed greatly to the enormous increase in world trade which has taken place.

The Kennedy Round now in preparation for this year is the latest in the series.

Now, during the time that the GATT has maintained its provisional existence, revolutionary changes have been taking place on the world scene. There has been the long confrontation with Russia, the cold war. Europe, with vast help from the United States and Canada, has risen from the ashes of 1945 and by 1959 could be said to be rebuilt. Japan, too, has rebuilt her position as one of the world's great trading nations. Colonies have almost disappeared. In their place a horde of tiny, weak, and ill-equipped, independent states has appeared, each with its vote in the United Nations, where they press their political and economic interests with great vigor.

The recovery of Europe has been accompanied by all the discussion and negotiation about its unification. This idea has been supported by people with many different motives. From the first it was warmly supported by the United States. America set out to provide Europe, through

the Marshall Plan, with the means to make itself strong once again. Americans could not think that Western Europe, half the size of the United States, could be an effective force if it remained fragmented among a number of individualistic governments, and they tended to look for a United States of Europe constituted on the model of 1787. For a long time Britain declared herself in favor of unifying Europe but resisted all pushing and pulling to get her into the act.

There were several reasons for this reluctance, but the main and the lasting one was that she couldn't see how to do it without breaking up the British Commonwealth. We were and we are convinced that the British Commonwealth, loosely knit as it is, is of great value and importance, not only to ourselves but to the Western world as a whole.

We have now arrived in Europe at an unsatisfactory situation in which there is the closely knit Customs Union, called the European Economic Community, or EEC for short, set up by the Rome Treaty of 1956, and the looser grouping of the European Free Trade Association, or EFTa. The EEC consists of six countries--France, Germany, Italy, Netherlands, Belgium, and Luxembourg. EFTA comprises seven--Britain, the three Scandinavian countries of Norway, Denmark, and Sweden, Austria, Switzerland, and Portugal. The EEC is a full customs union. That is to say, tariffs and other hindrances to trade between the six member countries are being rapidly scaled down to nil, while at the same time their tariffs on imports from other countries are being harmonized, that is, being moved up or down by yearly stages to reach an agreed, common level.

Their policies on other economic questions like manpower and energy policy are being harmonized, too, and the Rome Treaty expresses the intention to advance to political as well as economic union.

The European Free Trade Association likewise provides for the progressive removel of tariffs and other hundrances to trade between members but only on industrial goods. There is no harmonization of tariffs on trade with other countries and there is no commitment to political unity. On the contrary, the specific objects of EFTA are two. The first is to promote free trade among its members, and the second is to facilitate the negotiation of arrangements with the EEC which will make of Europe a single trading unit.

In its first object it has been most successful and will reach its goal by 1969. In the second it has, at any rate until recently, achieved little. This lack of progress was largely due to the suspension of active efforts while Britain was negotiating with the EEC. But since De Gaulle rejected British entry a year ago, EFTA has resumed its course.

The United States Government lent its strong support to the formation of the EEC on the assumption that the six governments, as members of NATO, would share American views about economic partnership. The United States was prepared to suffer gladly whatever disadvantage might result for American manufacturers in the European market because it was a necessary step on the road to political unity in Europe.

Because of the lack of political content, EFTA, unfortunately, did

not enjoy the same benevolence. In American eyes EFTA has had the disadvantage that three of its members are not members of NATO but are declared neutrals in the East-West conflict. For these reasons, and because of its 18 months of hibernation during Britain's EEC negotiations, I think there has been a tendency in these United States to underestimate EFTA.

Its imports in 1962 from outside its own area totaled $20.4 billion. Its exports were $16 billion. These figures were over four-fifths of the trade of EEC. They were about the same as the foreign trade of the United States, which imported in 1962 goods worth $16.2 billion and exported $21.4 billion.

In the past year I sensed that the American attitude to EFTA has changed for the better. It is now understood that it is still important for EFTA members that Europe should not be split into two or more trade groups and that we hope to find some way to solve this problem. After all, our trade with EEC countries is greater than our trade with one another.

Well now, you have now seen how it came about that Europe is at sixes and sevens and what has been the attitude of the United States Government and the effort to unify Europe. Besides this issue, the course of the last 10 years has brought out another issue, too, namely, a deep division of economic thinking between the United States and Britain on the one hand and France on the other. Of course, the other leading countries of the world share some or all of the views of one side or the other, though the countries I have mentioned are the leaders of thought

on the problem.

As I have explained already, the United States and Britain are deeply attached to the idea of freeing world trade to the greatest extent possible. We both believe in following domestic, economic policies which aim at full employment, but we believe that the only sure way of attaining this target, apart from careful financial management, is by increasing world trade and our part in it. We want the trade barriers removed. We want the EEC not to be concerned solely with trade within its own frontiers but to be outward-looking to trade with all the rest of the world.

The French thinking has evolved in a somewhat different way. France subscribed fully to the GATT and has always played a full and active part in the process of removing barriers to trade. But her long-drawn-out process of postwar economy was achieved through a highly organized system of economic planning in a high-cost economy, behind the wall of high tariffs, with incentives to aid exports and with valuable, special privileges for the trade of French colonial territories. In short, she seems to prefer to work in a much more closed and more managed economy than we do.

The system has in the end worked very successfully, and France appears to be decidedly more stable and prosperous than in the period between the wars.

These ideas of economic management France applies also to the working of the EEC, of which she has quite frankly set out from the very first to be the leader. She wants the EEC to be distinguished from the rest of the world by a tariff barrier which will establish a clear

privelege in favor of the member countries--a legitimate wish, though reminiscent of the power politics of the Tultherein, or German Customs Union, a century ago.

During the negotiations with Britain, the French attitude was this: The British could have come in at the beginning, but they didn't. Let them now undertake the full obligations of the Rome Treaty and they can come in. Now, as against this, the British attitude was that the accession of Britain and probably other countries, too, would alter the basis on which the Rome Treaty had been negotiated, and that special provisions were therefore needed to deal with special problems which had discouraged us from going in at the start.

So much for the commercial aspects of French policy. In recent years, especially since De Gaulle became President, the political aspects have assumed great importance. In a few days' time I see that you are going to have an account of them, or at least I suppose you will, from a member of the French Embassy. But in the meantime I must give you a provisional account of what French political attitudes look like to an outsider.

President De Gaulle believes in the mystique of leadership. Identifying himself in a curious way with France, he intends that France should take her rightful place, as he sees it, as leader of Europe and as leader of the world. He has done a most amazing thing, namely, to separate off from France the part of France called Algeria and to set it up as an independent country, the very thing which he was put in office to prevent.

What he did was rather like giving independence to New Mexico and Arizona under the government of the Navaho and the Puebo Indians. If you think that that is an outrageous and an upsetting idea, you will have some idea of what the French feel about Algeria.

President De Gaulle's next task is to build up the political position of France in Europe. In his view this requires that Europe should be free from the interference either of the United States or of the Soviet Union--except, of course, that the Soviet Union is part of Europe. This is why he wants to establish a wall around the EEC, to turn it into a loose confederation under French leadership, which will stand as a third force, friendly to but independent of the United States and of American policies and resistant to communism. That is what he means by being European. It is because Britain is not European in this sense but persists in maintaining close partnership with the United States and with the British Commonwealth that De Gaulle rejected British entry into the EEC.

The German Chancellor, Dr. Erhard, is also showing concern for partnership with America, which is less than satisfactory for De Gaulle's political philosophy. But Germany is already well and truly inside the EEC and has made considerable sacrifices to maintain it and insure its success. The same can be said of the Italians and the Dutch, too, while the Belgian Foreign Minister, M. Paul-Henri Spaak, has been outspoken in his criticism of De Gaulle.

Lastly, there is a conflict between the Anglo-American-German-Italian et cetera concept of the Atlantic partnership and the current French concept of an old-fashioned confederation and something like the system of alliances of the late 19th century which led to so much trouble in

the world. This is why the exclusion of Britain from the EEC was a slap in the eye, not merely for Britain but also for the world as a whole.

At the moment we are all exercising our patience and trying to make as much forward progress as we can. That applies, among other things, to the Kennedy Round. The Kennedy Round had its origin in the complaints of the world's producers of wheat and corn, coffee and cocoa that they were being shut out of their markets in America and Europe by agricultural protection, and in complaints from the less-developed countries that too little concern for their trading interests was shown by the industrial countries of the world.

At the same time many countries, and especially the United States, had a strong interest in making further efforts to reduce trade barriers so that the tariff of the EEC should not put American goods at a great disadvantage in competition with products made inside the EEC. To deal with this situation all the governments in the GATT decided, in November 1961, to launch a new round of trade negotiations, with the object of increasing world trade by negotiating a straight percentage cut of existing customs tariffs, of paying special attention to trade in agricultural products, and of dealing with the trade of new industries growing up in the less-developed countries.

The Trade Expansion Act passed by the U. S. Congress in 1962 gives effect in this country to that position. For the past nine months discussions have been going on in Geneva to decide the basis for negotiations in which all the members of the GATT will take part. These negotiations

are due to begin on May 4 next, but, although there are only two months to go, disappointingly little progress has been made toward agreement on any basis for negotiation at all. The reason for this is that the United States, with strong support from Britain and other EFTA countries, has been arguing for a reduction of tariffs by a full 50 percent, a cut which you will agree is a very stiff one, while the French have been using every means to defend the position I have already described of maintaining adequate tariff barriers around the six countries of the EEC.

In this they have so far been successful in carrying their EEC partners with them willy nilly. The United States has also demanded that the agricultural policies of the EEC shall be so devised that countries traditionally engaged in the export of agricultural products shall continue to have access to the markets of the Six, in other words, that regulations should not be brought into force that would worsen the position of the United States and others as exporters to the EEC. Provision is also required to allow exporters to share reasonably in the growth of the market, which is likely to happen as population rises and wealth increases.

Now, here too, there has been a complete hold-up because the countries of the EEC have been arguing among themselves about how to regulate agricultural protection within the community. They have now gone far to commit themselves to a program which looks as if it might lead to such an increase of agricultural production within the EEC, behind an ingenious barrier to imports, that the opportunities for other countries to sell to Western Europe would be whittled away to nothing. If that happens the consequences will be even

more serious for Argentina and Uruguay, Canada, Australia, New Zealand than for the United States. However, one still cannot be absolutely sure what is intended, and discussions on this very question have been going on in Geneva this past week. They didn't get very far, I may say.

If the EEC countries work out a moderate form of agricultural protection they have a very good case for what they are doing. Practically all countries with a high standard of living find it desirable to protect their agricultural industries. Britain does. Most of the continental European countries do. Denmark does not. The United States has perhaps the most highly developed system of agricultural protection in the world, and with justification, too, and yet, largely owing to the revolution in the efficiency of the agricultural industry which has taken place in the last 20 years, the United States Government is holding vast subsidies. The EEC might be justified in trying to insure that their own production was protected against the possibility of American surpluses being unloaded on the world market at uneconomical prices, even though the United States Government has hitherto shown itself sensitive to the interests of other countries in this respect. In any case, it might be argued, even if American surpluses are not unloaded, why should not other countries protect their production from imports of products which were produced under the shield of high protection.

Again, I have heard some Frenchmen argue--and it's an argument, I think, which should certainly appeal to American believers in competition--that the countries which have supplied Europe with cereals, butter, and

meat for the past 100 years cannot reasonably expect to go on supplying forever. Markets change. Technology changes. One hundred years ago, the French say, Britain earned its wealth from exports of coal and cotton goods. Nowadays Britain imports both fuel and cotton goods and its wealth comes from exporting aircraft and electronic instruments and electrical machinery, yes, and Scotch, too. So should the agricultural producers adapt themselves to the changes in world demand.

Although the EEC has so far managed with great heart searching and difficult discussions to maintain a unified attitude on this extremely difficult question of agricultural protection, their views are plainly not unanimous. Germany, whose agricultural industry has the highest costs of the Six, has also built up a large and valuable trade in manufactures with the rest of the world. Both to safeguard this trade and for the sake of the prosperity of the free world, the German government thinks it important to maintain opportunities for the import of primary products into the EEC.

I have hopes, therefore, that this particular problem may, after difficult negotiations, be resolved on the pattern which the United States Government is seeking.

This is the place to mention the chicken war, that inauspicious curtain-raiser to the Kennedy Round about which we all read last fall. The EEC took steps under its agricultural program to impose a levy on imports of frozen poultry. In 1961 the EEC had given an undertaking to the United States not to increase the tariff on poultry. When, therefore,

the levy was imposed the United States considered itself entitled under the GATT rules to claim compensation, that is to say, a reduction in tariffs on other goods, and, failing that, to retaliate by raising tariffs on an equivalent value of goods imported from the EEC. The chicken war was simply about whether EEC would offer adequate compensation, and, when they didn't do so, what form the retaliation would take. The argument came to an end when the United Stztes jacked up the tariffs on 4 or 5 products which come mainly from the EEC, and it was a demonstration that the United States meant business.

This discussion of agricultural protection and access to the European markets of the EEC, which is one of the chief problems of the Kennedy Round, leads me on to discuss the question of the United States attitude to trade in primary commodities generally, and from there to the attitude of the trade to the less-developed countries.

I mentioned at the beginning of my talk that the original Havana Charter of 1946 contained provisions for the regulation of trade in commodities but that this was never ratified by the United States Congress. The GATT has managed to play only a small part in discussions about commodity policy, but commodity policy has also been handled by a variety of other bodies, in the United Nations, for example, by the Food and Agriculture Organization. Fairly naturally, the countries which are dependent on the production and sale of raw materials, whether agricultural or mineral, want to get the highest prices they can. The interests of the industrial countries which use these raw materials are that prices should not be so

high as to raise the cost of living and production costs, and yet that they should not be so low that the producing countries suffere economic distress and are unable to buy the manufactures we should like to sell them.

During the Korean War the world market prices of foodstuffs and raw materials rose to great heights because every country in the world was stockpiling as hard as it could go. All the countries where raw materials are produced found themselves earning much more in dollars and sterling than ever before, and they were encouraged to launch out into new and ambitious programs of economic development which cost a great deal of money. The Korean Armistic brought disillusion. Prices fell all the more because there were large stocks to be run down in the hands of consumers. The incomes of the producing countries dropped sharply and they began to pile up debts. The halls of international conferences soon echoed with the wails of anguished Ministers of Finance who demanded that international action should be taken to support the prices of their countries' products. "You give us aid," they said, "and you take it away again by your miserable terms of trade."

Take for example Malaya, one of the most efficient and prosperous of the less-developed countries. Malaya and Singapore are the world's great producers and traders of tin and rubbers. A fall of one cent a pound in the price of rubber costs Malaya a loss of income equal to the whole of the foreign aid received.

Now, besides the efforts of the less-developed countries to get the world to set up commodity agreements, countries like Australia and Argentina

have been battling against the restrictions of their overseas markets through increasing agricultural protection in the consuming countries, including the United States. You know, perhaps, that the United States imposes a quota limit on imports of butter and cheddar cheese which canada, Australia, and New Zealand are eager to sell. We in Britain, as a matter of fact, find it a little odd that there is no quota for English cheddar, though the cheese takes its name from an English village. The reason, of course, is that the Department of Agriculture is holding enormous surpluses of American-made cheese and butter.

You may also have read in the papers last week how Australia and New Zealand have been induced to impose voluntary restraints on their rapidly increasing exports of meat to the United States.

Now, how have the consuming countries faced these pressures? The United States has generally been hostile to the idea of commodity agreements which are considered by many to be a restraint of trade, contrary to the principles of free competition and the antitrust doctrine in which Americans believe as deeply as they seem to do in the Constitution itself. Only for the strongest reasons of policy is the United States Government willing or able to join in commodity agreements.

I think that the United States Government also holds views similar to those of the EFTA governments about commodity regulations. These are, first, that it is certainly undesirable to have violent swings in market prices, but some swings there must be as production and demand vary from year to year. Governments can try to even out the smaller swings, but

what about long-term trends in consumptions, as, for example, many years ago now, when natural indigo, which was once a very flourishing industry, was driven out of production by synthetic dye which was produced by the chemical industry? What is going to be the cost of the current competition between natural rubber and synthetic rubber or between wool and man-made fiber?

We think that general commodity agreements or organized markets covering a great range of commodities could have disastrous results both in creating uneconomic and unwanted production and in placing a heavy financial burden on consuming countries. We are, however, entirely willing to join with other countries in discussing commodity problems, and if it is clear that remedial measures are necessary, we are ready to join in taking them, provided that they conform to the rules of the GATT.

Commodity agreements of this kind exist for tin and sugar and, most recently, for coffee. There are also important agreements for wheat and a minor one for olive oil. The United States participates in the sugar and coffee agreements, though the legislation necessary to carry out the provisions of the coffee agreement has still to be enacted by the Congress.

Although the GATT has played only a small part in commodity matters, the primary producing countries have nonetheless worked hard in the GATT to get satisfaction, and their efforts contributed directly to the decision of November 1961 which led to setting up the Kennedy Round.

Now, there is a third aspect of that decision affecting the less-developed countries, and it is this: The less-developed countries want as far as possible to be independent, to earn their living by trade, not aid--though I notice, as a matter of fact, that in Africa the tendency has grown up to claim aid as a right. This is all the more important as it has become part of the gospel on foreign aid that the less-developed countries must industrialize.

It has been said that the first desires of a territory of half a million inhabitants on becoming independent are embassies at the United Nations and at Washington, a national airline, and a cotton textile industry. To be more serious, in some of these countries there are important and well developed industries. For example, the cotton textile industry has flourished in India and in Pakistan since 1880, and I dare say that many of you gentlemen have been in the habit of wearing Madras sport shirts.

In order to repay their development loans, these countries are pressing for freedom to sell their manufactures in the industrial countries of the West, a freedom which is now limited by our fear of cheap imports from countries with a low labor cost to damage our old, established producers of the same kind of goods.

So the third aspect of the Kennedy Round is the need to provide legitimate opportunities for the trade of truly competitive industries in the less-developed countries. I think it is hoped to deal with this aspect not so much by negotiations with the less-developed countries themselves as by the process of removing trade barriers between the industrial

countries, with resulting advantages being available to everybody.

The successful outcome of the Kennedy Round is politically very important for future relations between the Western world and the uncommitted, less-developed world.

I have now described the three aspects of the international negotiations called the Kennedy Round. There are various possible results, and I could not prophecy what will finally be decided about all the things which I have been speaking about, but, as many governments in the world attach great importance to the Kennedy Round, I do feel confident of a successful outcome, perhaps not this year but, at any rate, next.

The time has come to turn to the question of trade with the Sino-Soviet bloc. You have read in the Congressional Report an American point of view, and I need restate it only briefly--that the Soviet bloc has two objectives in trading with the free world, first to speed up its own development plans by importing capital goods and, second, to use trade with and aid for the less-developed countries as a political weapon. It is further stated that this second objective is made easier by the system of state trading which enables the Soviet Union and its satellites to buy and sell as they please and to make bilateral trade agreements which in recent years add up to a significant threat to free, international trading patterns.

Now, It seems to me that the first objective, of speeding up development plans, is entirely legitimate and proper. It is what every country does when it imports machinery. The second objective is, I think, rather

overstated. The Soviet block imports large quantities of raw materials from the primary producing countries, for example, wool and rubber. These imports have to be paid for with exports of some kind to some place. It is certainly true, however, that the Soviet bloc and China have tried to woo the newly independent territories away from their trading links with the West, and, particularly, their links with the former colonial powers by bilateral trade agreements. It is true that these trade agreements often include the preemptive buying of the local produce, whatever it is. A striking example of this was the buying up of bananas and coffee from Guinea, when that little territory in West Africa broke with France. Just for once the people of Prague were able to enjoy the taste of a banana.

Up to now, it hasn't taken long for the sellers to discover that these arrangements do them little or no good. I do not think that they are now a serious danger to Western interests. We can take into account here that one motive for making these offers is to show that the Soviet bloc can play its part with the Western countries in giving aid to the less-developed world.

Now, leaving China out of account for the moment, there is broad agreement amongst Western nations that it is advantageous to develop human contacts and exchanges of various kinds, particularly in the cultural and scientific fields, with the Communist countries. The United States has played a significant part in developing such contacts, but, when asked, the EFTA countries believed that the development of trade with the bloc

countries had similar helpful effects. The United States has shown until very recently a marked disinclination to any expansion of trade with them. Well, for one thing, in EFTA we are dependent for our prosperity on external trade and we have to find markets for this. There are, of course, reasons of government policy for not selling goods abroad--for example, armaments. We are as eager to export armaments as the United States Government is but only to approved customers who are thought likely to use them only for self defense. Needless to say, we do not export armaments to Communist countries nor anything which was agreed among the industrial countries of the West, in the international group in Paris called TURCOM, to be of strategic value for direct preparations for war, but anything else is free to be sold to the bloc.

What reason could we give to British manufacturers who had the opportunity of gaining contracts in Russia for refusing to permit them to export? The export would help the development of the Soviet Union? Well, that would be economic warfare against the Russians in which we should lose just about as much as they. We don't want to sell the Russians only machinery. It is they who come to buy machinery. But we bargain very hard with the Russians state trading organizations to get them to buy some British consumer goods. In return we allow them the opportunity to sell some of their manufactures in Britain, if they can.

At least up to this point of the argument all the Europeans are agreed, and, in fact, you perhaps know that, although Britain is the most talked about country as a trader with the bloc, she is not the leader

in trade. Germany is. I've got some figures, but I am not going to take time to read them. Germany exported to Russia in 1962, $206.7 million worth of goods, and to Eastern Europe $510.8 million. Britain was second, with $117.4 million to Russia and $193.2 million to Eastern Europe--a long way behind. The total for EEC was $504.6 million to Russia and $880 million to Eastern Europe. The total for EFTA was $289.3 million to Russia and $533 to Eastern Europe.

British exports to the Soviet bloc are less than 3 percent of total exports. Percentage for EFTA as a whole is just over 4, and for EEC it is just over 4. These percentages are small for a country of the size, population, and economic importance of Russia.

The United States Administration accepts the case for trade with the Soviet bloc, though with some hesitation. The argument in recent weeks has not been about the principle of trade with the Soviet bloc, it has been about two things: Trade with Cuba, where Britain and most, though not all, of the European countries, treat Cuba in the same way as another Communist country. You say that Cuba is 90 miles from the coast of the United States. But, much worse than that, the Russian Army stands on the River Elbe. The point there is that the United States Government is trying to organize an economic boycott of Cuba, with the object, I think, first, of trying perhaps to force the overthrow of Castro, but, secondly, of retaliating for Castro's subversive activities in Latin America. There is the feeling that something has to be done.

The Europeans, I think, feel that that is not really profitable

in terms of what is going to happen to Castro. So basically the argument about Cuba is not about trade but about how to deal with Castro.

The other argument which has sprung up is on the question not of selling to Russia nor of giving credit to Russia but on the question of long-term credit to Russia, between 5 and 15 years. The point there is that it is argued that to give long-term credit means that you are giving the Russians capital, of which they are terribly short, and they don't know quite how they are going to allocate their resources. Our point of view on that is that the advantage to Russia which they get from the credit which they are likely to get from Britain or Western Europe is insignificant in relation to the size of the gross national product, the total size of the Russian economy. Certainly it will help them to expand their chemical industry, perhaps, but they could do it without making very much of a sacrifice of their own, and selling the stuff to Russia gives a considerable boost to the economies of the Western countries themselves.

Now, as you see, I have had to do some adlibbing and to cut short my remarks, for which I trust you will forgive me. I think perhaps I should now stop by saying that I have shown that the basic pattern both of our trade within the free world and of trade with the Communist world is one on which there is on the whole general agreement. The differences relate to specific problems. Going back to the Kennedy Round, it is not surprising that there are both practical and ideological differences between all the participating countries which are really quite difficult to iron out. But I think that one can hope with reasonable confidence that

they will be ironed out. We just have to exercise the diplomatic virtue of patience.

Thank you.

DR. BARRETT: Gentlemen, our speaker is ready for your questions.

QUESTION: Sir, for the last 30 years the United States has received great condemnation over the Buy American policy. Could you discuss the United Kingdom's reaction to the Buy American policy, and also mention any Buy At Home policies that the United Kingdom might have which cause as much international disagreement?

MR. CHADWICK: About the Buy American policy, certainly we have over the years made continual representations to the United States Government about the preference, very substantial preference, which the Buy American Act gives to American goods bought by any government agency. One reason for this, which was very important, in the early years after the war was that it was extremely necessary for the health of the world that the United States should increase its imports, because at that time the United States was the great source for keeping the world alive and we all had to try to sell things to the United States.

Further, of course, there is the argument that preference increases the cost to the U. S. Government in terms of dollars and means that they don't necessarily get the most economical product. So the U. S. Administrations have in the past accepted the force of these arguments and the desirability of providing opportunities, and some years ago a Presidential Directive was issued stating that, for the purposes of the Act, the

preference in favor of U. S. goods should be limited to 6 percent, or, if the goods were being supplied from an area of high unemployment, 12 percent. The regulation did provide that the heads of the U. S. agencies could ignore these percentages if it was in the national interest to do so. In the last 18 months or 2 years the Secretary of Defense has been ignoring it. Now, the reason why he has been ignoring it is that the troubles of the balance-of-payments deficit of the United States, which have caused such a vast outflow of dollars and gold from this country, have been due largely to overseas government expenditure, foreign aid, Defense expenditure abroad, and everything, and that, therefore, one of the things which should be done to rescue the balance of payments from getting into real difficulties is to cut down overseas expenditure on defense.

So the Defense Department has been applying a rule that there will be a 50 percent preference in favor of U. S. equipment purchased for any Defense Department agency. This, as I said, is one of the measure which have been taken to protect the balance of payments, and the world's finance ministers have agreed that the measures which have been taken by the U. S. Government were necessary and were perhaps the least damaging to the interests of others that could have been devised.

None the less, we were particularly hurt, I think, not so much about defense equipment as about the fact that it just happens that the Defense Department includes the Corps of Engineers which does quite a lot of civil work in this country, and we would have liked to have gone on having had the opportunity of bidding for civil plants under the irrigation

and flood-control operations of the Corps of Engineers.

Now, I was asked about the policy of Britain. Needless to say, the State Department has not been slow to inquire what our arrangements are, and from time to time we have had to make rather careful inquiries into our own practices to see whether we are behaving properly in relation to what we demand of the United States Government. I think it would be true to say in fact that, whatever the regulations may have been, no government department would really have thought of sending out a tender form to a foreign firm. I think this is something which dated from 1932 and the great depression.

I remember very well at that time that it was suddenly discovered that all government departments in Britain were using Remington typewriters. There was the most frightful uproar, and it was ordered that in the future all government typewriters should be made by the one and only manufacturer in Britain at that time--there are others now. It was as a consequence of the great depression that we began to be very nationalistic minded in our buying.

I received quite a number of letters just recently from the Board of Trade, which is the equivalent to the Department of Commerce, in London, assuring us that in fact there is no Buy British practice in Britain.

QUESTION: Sir, being key-currency countries, such as your country and ours are, do you see any possibility of relieving us of this burden in the future, through increasing international liquidity?

MR. CHADWICK: It certainly is a burden. On the other hand, it does have certain advantages, because the fact that people use sterling or dollars, as the case may be, means that they have to have resort to the banking community or the financial community in New York and London, and that brings in quite a substantial amount of money. So it is not wholly, by any means, a disadvantage. I think that there are one or two other currencies whose governments would really like to put them on the map in the same way.

The question really is: How do you insure that the money which is available for the development of the world and for giving credit to the buyers of equipment doesn't run out in fact and that capital doesn't become just too expensive?

I said in my lecture that there are about as many theories as there are experts on this subject, and there are very complicated theories which, quite frankly, I haven't set out to understand myself. I would think that perhaps in a couple of years the studies which are now in progress might lead to some new proposal coming forward.

I think that's the best answer I could really give to the question.

QUESTION: Sir, you indicated that an early concern of Britain on entering into the European Trade Community was your Commonwealth consideration. Subsequent to that, however, Britain did enter EFTA and considered entering EEC, which would indicate that Commonwealth considerations were regarded as not valid. Would you comment on what the Commonwealth considerations were and how they worked between your governments?

MR. CHADWICK: The Commonwealth is held together in economic terms, as distinguished from political and sort of racial terms, you might say, by a system of trade agreements which were created in 1932 and which give preferential tariff treatment for the countries of the Commonwealth on particular goods. These preferences, because they were in existence even before the last war, are accorded the sanction of the GATT rules, though the GATT provides that under no circumstances may the preferences be increased. So that, if we reduce the tariff on, let's say, Canadian automobiles in Britain, we have to make a corresponding reduction on the tariff on American automobiles. These preferences would have disappeared otherwise.

Now, in terms of EFTA they don't disappear, because EFTA is constituted that way, and it was one of the things which we saw to when we drew up the EFTA arrangements, so that EFTA is not incompatible with the economic arrangements which we have with the Commonwealth, or it isn't so far, at any rate. One could see the possibility of certain awkwardnesses arising in due course.

What has happened, really, is that EFTA is enjoying treatment as good as the Commonwealth. Of course there will come a time that the awkwardness will be when we are committed to give free entry for EFTA products, where we at present have a tariff which applies to Commonwealth products. This would apply only to manufactured goods. All Commonwealth raw materials enter Britain free of duty.

In relation to the EEC, what we did was say, "Well, look. It is

politically as well as economically desirable and necessary that Britain should join the EEC for the good of the world, and this means that somehow or other we will have to bring to an end the special economic arrangements with you, but what we will do is we will try to get the EEC to agree to special arrangements which, at least for a transitional period, will look after your interests."

The last thing that happened before General De Gaulle's famous press conference was that the document was drawn up which purported to provide the necessary provisional arrangements for the interests of the British Commonwealth.

QUESTION: Without getting into the question of whether the Beatles were some sort of subtle exported form of retribution for some of our own efforts, let me ask, if De Gaulle faded way--certainly he won't die--and you were invited to join the EEC without special dispensations for the Commonwealth, would EFTA collapse as a result?

MR. CHADWICK: Golly what a question. Time marches on, certainly, and the situation is not what it was in January a few years ago. I would think, really, that we would want to make sure that some provision was made for Commonwealth interests. Now, Commonwealth interests are chiefly in the primary products, and, if there is a general arrangement in the Kennedy Round which provides for the access of primary products, unmanufactured goods, to the industrial countries generally and EEC in particular, and if, in addition, perhaps there is some suitable provision for some manufactured goods from some places like India, I would think that it would

not be necessary to make special provision in the British accession to EEC for these countries. That is just a mere speculation, you see, on my part.

As far as EFTA is concerned, what was happening in our previous negotiations was that Denmark and, I think, Norway and also Ireland all said that if Britain joined they wanted to join, too. The Swiss, the Austrians, and the Swedes, who are the neutrals, were having kittens on this question altogether, and I think they were thinking in terms of having a kind of agreement of association with the EEC, perhaps somewhat similar to the one which the Greeks have got. But I think that certainly, most probably, EFTA would come to an end.

QUESTION: Sir, do you have any statistics on trade between Western Europe and England with Red China? Also, how does England view trade with Red China as compared with trade with Russia?

MR. CHADWICK: Thank you for the question. I haven't got a figure in my head except as a percentage. The percentage of total British export trade which goes to China is not .5 percent. We have been prepared up to now to trade with China in the same way as with the other Communist countries, subject, of course, to the same limits on the export of strategic goods. What the Chinese have bought from us has been pretty limited on the whole. Their foreign exchange resources are strained. They have spent vast sums of money on buying wheat and cereals to feed their people. The possibilities are generally very limited.

QUESTION: Will you discuss the British attitude toward Japan in

world trade? What do you visualize for the future? Will she join some existing unions or perhaps form a separate union?

MR. CHADWICK: Japan is the industrialized country of the Far East, if you exclude for this purpose Hong Kong, which, of course, is tiny but very productive. It is difficult, of course, when it is so far from anywhere to imagine Japan's being included in a trading bloc of the customs union type. All the same, Britain, just like the United States, does attach very great importance to bringing Japan into the circle of like-minded nations, and in the course of time we have been working in that direction.

We have been up against a great deal of prejudice with our public opinion, which is due not merely to the memories of the last war and things which happened in it but also to the ferocious trade competition from Japan during the thirties. That trade competition was, I am now convinced, as a result of having lived in Japan myself, a product of the Japanese way of life. It was that they themselves were terribly poor, but they just went on producing because that was better than not producing and letting people starve. But, of course, it was like exporting unemployment and had very serious effects in Britain, which up to then had been a very large importer of the things which Japan was exporting.

The situation in Japan is rather different now, and when it comes to bringing Japan into world affairs, we have, as I said, made paramount progress. The latest move is that arrangements are in a late stage of negotiations to bring Japan into the OECD, the Organization for Economic

Cooperation and Development, which is the group of Western European and North American countries in Paris. This is the successor to the OEC which was started under the Marshall Plan.

QUESTION: With regard to the problem of taking more manufactured goods from the developing countries, can you tell us how your government and your industry have coped with the flood of duty-free textile imports from Hong King, Pakistan, and India?

MR. CHADWICK: Well, certainly, it has been a tough problem. The cotton textile industry in Britain has been the chief sufferer. I mentioned the 1932 agreements with our Commonwealth countries. One of the provisions was that there was free entry for cotton textiles. In the days when those were made, the Indian industry could not produce all that was consumed in the country, and there were still quite large exports from Britain to India. But the Indian industry has expanded, the British industry has contracted, and the competition has been fierce.

Imports of unbleached cloth for processing in Britain from India and Pakistan, and from Hong Kong, have grown enormously. The British cotton textile industry screamed to Heaven about this, but the Government firmly resisted demands for protection. They said, "You protect wool and you protect everything, but you don't protect us. We are suffering from this frightful competition. Do something to help us."

What the Government did was, it provided grants and loans to the industry to reequip with modern machinery if they wanted to. It is surprising how many people didn't. They paid a subsidy for people who took

their machinery out of production, in fact. The consequence of this has been that, with the help of negotiations with India and Pakistan and Hong Kong for progressive increases in their shipments of about 10 percent a year, we have now gotten to the stage where 40 percent of the total consumption of cotton textiles in Britain is imported.

Those are not the only three suppliers. Japan is a supplier, though Japan has been limited by quota for a long time. Yugoslavia has jointed in, and now other countries are joining in, too, just as they are in this country.

DR. BARRETT: Gentlemen, I am afraid there isn't time for any more questions. Mr. Chadwick, we thank you for a very searching and able analysis of our topic.