

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80)43  
16 May 1980

COPY NO: 55

CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITAIN'S INTERNATIONAL TRADE POLICIES

Memorandum by the Secretary of State for Trade

I invite my colleagues to consider this paper on our international trade policies. In particular I would ask of our general stance, first, is it right? And secondly, if so, are there aspects of the overall strategy which require further consideration? Is there anything that should be changed? It would be surprising if there were not.

Our general policy - is it right?

2. Our election policy was generally to support the open trading system - we rejected import controls while promising to fight dumping and other unfair foreign trade practices. A glance at the Annex will show that about 70 per cent of our exports of manufactures go to other industrial countries and nearly 90 per cent of our imports of manufactures come from there.

3. For us the first, and all important, question is whether it is in our national interest to move away from the open system and, on imports, adopt an altogether more protective policy as the Cambridge School particularly are suggesting. Of course, it would be difficult to change our policy within the industrial world if we wanted to - because of our GATT (General Agreement on Tariffs and Trade) obligations and because of our membership of the European Community. But it is our own national interest that must count first.

CONFIDENTIAL

64  
68  
44  
70  
46  
71  
48  
74  
50  
76  
78  
80  
54  
82  
56  
84  
58  
86  
60  
88  
62



CONFIDENTIAL

2 -

4. I myself do not think that a move away from the open system would be in our interest. I frankly acknowledge that important parts of our manufacturing industry are meeting real difficulties. First, because of the long-standing problems of a poor record of innovation, low productivity and the trench warfare that has characterised much of our industrial relations. And secondly because of present inflation and high interest rates at home and the high level of the pound in currency markets abroad which makes our imports (including manufactures) relatively cheap and our exports (more than three-quarters of which are manufactures) relatively dear.

5. But there seems to me to be three points on the other side that for us are overriding:

- a) there is no reason to suppose that a more generally protective policy would in practice do anything to improve British industry's performance. In fact, the reverse. The incentive to both management and the work force to improve productivity and industrial relations would be eased once again - and the old ways, or worse, would be consolidated;
- b) although we have a high and increasing overseas penetration of our market for many manufactured goods, exports of goods and services account for a very high proportion (around a third) of our GDP and over one-third of the goods made in our factories are sold overseas. This is part and parcel of a growing exchange of goods among major trading nations; after all British industry has grown in that environment, and our export success relies on British industry having access to competitive components and equipment. Our dependence on exports is higher than any other industrial nation of comparable size and much greater than the USA's or Japan's. The adjustment required to a more domestic-orientated industry - fewer imports and fewer exports - would be colossal and very painful;

CONFIDENTIAL

CONFIDENTIAL

3 -

- c) we shall be - we already are being - asked for more protection against imports (both the CBI and the TUC call it "selective") as the stresses on industry grow. But if we concede, or even play with this, all the impact of our other policies will be weakened and, quite apart from the price increases that more protection would bring, our efforts to control inflation and achieve a lower level of wage settlements would be threatened. Because our industry would no longer feel the need to bother.

The international arguments

6. I said at the beginning that arguments about our international obligations were not in themselves determinant. But, taken in conjunction with the more general considerations and the make up of our trade, they are decisive:

- a) to be effective, widespread use of import controls would have to apply to the EC and EFTA countries because (see Annex) two-thirds of our imports of manufactures come from these countries. We could not expect, even hope, that they would swallow interference with their exports without reacting on ours - and that would affect over half of our exports. It would particularly call into question our EC membership and/or encourage talk of something less than full membership - which, of course, is what many supporters of the Cambridge School really want;
- b) more generally we should create a heavy strain on the GATT system - the essential of which is that a general policy of protection has for the past 30 or more years been rejected by the principal industrial nations. Here again the 11 per cent of our exports that go to the USA and Canada would be vulnerable to reaction, and the effects on our political standing in the USA (and in other major countries including Germany) would be great;

CONFIDENTIAL

25



CONFIDENTIAL

4 -

c) nor would intensified controls on the less than 10 per cent of our manufactured imports that came from the so-called newly industrialised countries (the NICs - including Hong Kong and South Korea) help very much; and last year we have a crude surplus on trade in manufactures with the NICs of about £1½ billion;

d) responsibility for tariff/quota questions have passed to the EC under the Treaty of Accession. At times we seek in our own interest a quota against a third country. But such a move is frequently opposed by the Germans for their own political/trade reasons, and often enough we get no more than tacit support from the French. Our exports tend to be of lower technology products than those of France and Germany - and these two countries are thus less concerned both about the restrictions against such exports to third countries and about imports of the same products from them. But we need their agreement to act. This has led us into difficulties on more than one occasion in the Council. Making any progress in moving Community trade policies to meet our national interest will be no easier than trying to change Community agricultural policies. I fear it could be 8 against 1 here too.

But -

7. All this said we cannot, any more than does any other country follow a blind free trade policy - and we do not. I am conscious of course, that my recent pronouncements have seemed somewhat ideological, but it was essential to argue the theoretical case against protection at a time when all the comment was going the other way. Now that we have (I believe) won the intellectual argument for the time being - we can begin to say more about the pragmatic actions we have been taking all along. In this connection we said, of course, in our election manifesto that to be acceptable international competition had to be fair, that we would deal with sudden surges of imports; and that we would maintain the restraints on imports of textiles from low-cost countries under the GATT Multifibre Arrangement (MFA). And, as I have stressed in the NEDC this year, the coverage and extent of the protective measures that are in place is greater than generally realised. Specifically:

CONFIDENTIAL

CONFIDENTIAL

5 -

i) imports of textiles from low-cost sources are subject to a network of restraints. Put simply, all our imports of textiles and clothing from the developing world are severely controlled. The textile and clothing industries tell us, I am afraid, that all these controls leak at the seams (or worse). In practice these controls work rather well though, however we improve them - which we do - the industries concerned always have another complaint to make. (The larger part of our imports of textiles and clothing anyway comes from the advanced industrial countries. Only 10% of the market comes from the low cost countries. 70% of all our textile and clothing consumption is provided by UK manufacturers.)

ii) outside textiles, we have a wide range of restraints on imports from Japan, Eastern Europe and certain products from the developing world. A third of our imports from Japan (less than 5 per cent of imports of manufactures anyway) are subject to industry to industry restraints - and this includes Datsun etc cars which otherwise would sell even more heavily. Steel imports from the developing world are contained by Community-arranged restraints; and there are controls on South Korean and Taiwanese footwear and South East Asian (and Japanese) electronics. Imports of most manufactures that worry us from Eastern Europe are restricted in one way or another - whether by formal quota or through price undertakings secured from an anti-dumping investigation. The process is continuous - car tyres is just the latest example.

iii) in addition we are active, now through the Commission, in the anti-dumping field. In this area the Department maintains a specialised unit to give direct advice and help to United Kingdom firms and to assist them in contacts with the Commission. It is known that, following a visit I paid to the Commission soon after we were elected, the Commission is ready to deal direct, and through us, with United Kingdom firms and industries on anti-dumping matters.

CONFIDENTIAL

26



CONFIDENTIAL

6 -

Our policy - is there anything that should be changed?

8. I would be providing an inadequate picture if I did not tell colleagues of several areas which give me grounds for concern about our broad strategy for trade.

- a) Although the vast bulk (up to 90 per cent) of exports are in middle-range technology products and consumer goods (where, of course, competition is growing fast) as much as 10 per cent are in large overseas projects, often in high technology areas (railway electrification, overseas power stations, mining, major infrastructure works). In these areas overseas countries need the technology and they are relatively free of tariff barriers.

In order to remain in this business at all, against heavily subsidised German, Japanese and French competition we have to subsidise British industry in a quite frightening way (for instance at present levels of interest rates we are effectively granting a 74% subsidy to GEC and others for the Hong Kong Castle Peak power station - there are worse examples). Some companies like GEC know their way around Whitehall and extract massive subsidies - most companies do not understand or try.

Should we then remain in overseas project business?

The reasons for this are strong. Since these projects provide an element of prestige for an industrial nation, preserve employment in heavy industry and provide a certain convoy effect for other exports, and since there is a strategic argument for keeping, say, a United Kingdom turbine industry, heavily subsidised exports are possibly the cheapest form of industrial subsidy. Against this, the resource cost of these projects is enormous and cannot possibly be justified in pure economic terms. Moreover, they are giving our competitors modern equipment (often more modern than our own) on heavily subsidised terms - although if we did not provide this equipment it is likely that the French or Germans would.

CONFIDENTIAL

CONFIDENTIAL

7 -

If we are to go ahead, there is no alternative to going for the business like our competitors and backing British industry. We should have to accept that this would be expensive. Effectively the Germans, French and Japanese have no aid programme. They use "credit mixte" (aid and trade) as an instrument of trade promotion. In 1978 the UK dispensed £24 million as mixed credits, compared with \$130 million by France and \$69 million by Germany. Our credit mixte provision (6% of the bilateral aid programme) is more or less committed for 1980 - and the procedures for agreeing even matching arrangements just do not meet the commercial needs.

- b) Is the organisation of Government appropriate to international trade in 1980? The much-abused Berrill report considered this matter in 1977, and much of the report still makes sense today. The divided responsibilities between Trade and the BOTB, Trade and Industry, Trade and the Foreign Office, Trade and the Treasury, certainly provide creative tension, but they also lead to cumbersome procedures and too many decisions based on the lowest common denominator. Such money as is currently available is spread around different Departments, and at no point can anyone see the total picture. Possibly the most effective trade department is Defence; it has its own budget and responsibilities, its own salesmen - and it uses its own procurement facilities for hidden subsidy where necessary. It may be a "resource" horror story but it gains exports.

We are moving to improve things. We have brought together the BOTB and the country divisions of the Department of Trade, under a single Deputy Secretary. On the civil project side, if we are to back British industry, we should do so more effectively and more rationally than at present - and in a way which enables us to count the cost and to form our judgement on individual cases. In this area we will be bringing together the overseas activities of the Departments of Trade and Industry under the Overseas Projects Group in a single focal point.

CONFIDENTIAL

27



CONFIDENTIAL

8 -

Even so I wonder whether our system of Departmental organisation and responsibility - coupled with Treasury control - is appropriate to our national dependence on overseas trade. Trade is a fundamentally commercial activity. Yet for reasons ranging from the PAC to Treasury control - and Whitehall organisation - we are less well equipped to be as ruthlessly commercial as our competitors.

- c) Should we decide (as the French, Germans and Japanese have already decided) that trade should be elevated to a more important place beside diplomacy?

Successful and highly commendable "leadership" in foreign policy is often damaging to our trading interests. Our competitors have succeeded in keeping a much lower public profile than ourselves. For instance on Iran.

We have an ambivalent attitude about our trading relations with South Africa. Yet here is a country that has money to spend, following the doubling of the price of gold. Mr Mugabe has stated that he will not sever his trading links with South Africa, but we feel that the moment is not ripe for a Ministerial visit because of the Lions tour and Namibia. When will it be ripe?

Taiwan is becoming a very interesting market, but we are still coy about how we handle it. (The US and Japanese have permanent delegations in Taiwan).

With Iran, Saudi Arabia, Libya, Iraq all difficult, can we afford to be so cautious about making the first moves?

Do we still act like a world power without the wherewithal to do so? Our competitors take a different line.

CONFIDENTIAL

CONFIDENTIAL

9 -

Final remarks and conclusions

9. For the reasons given - but particularly because of our large dependence on international trade, because the comity at least of the major industrial nations is buttressed by the open trading system, and because the recourse to protection would undermine our other fundamental policies - we have to settle for the international trading system as it is. This means:

- a) first, that we must generally resist the large pressures for more import controls - even though in many cases some unfairness will be alleged. The US energy price advantage is one such example, but it is impossible for us to seek to handle this problem independently of our Community partners - even if we wished to do so;
- b) second, we shall have to be ready to deal with sudden import surges. But sudden surges must not be confused with already high import penetration in particular cases and a continued increase. And because I am unhappy about my experience in restraining US synthetic yarns earlier this year (which has led to more complaints than congratulations) I am considering, though I have reached no conclusion, some procedure under which cases can be more thoroughly and openly examined and the influence of purely political pressure for protection diminished;
- c) third, we must roughly maintain the import controls we have. They already cover most sensitive products (textiles, steel, footwear, television sets, cars etc) and some of the more troublesome sources (Japan, Asia and East Europe). The existing textile controls on low-cost sources will be maintained, and we continually take steps to see that these controls are effectively operated (though the textile industry allegations of leaks are much exaggerated). We cannot cut the textile quotas under the MFA that have been negotiated up to 1982. And we must reserve our position on the precise shape of the new MFA and the associated bilateral agreements, to operate after 1981/82;

CONFIDENTIAL

28



- d) fourth, we must maintain my Department's anti-dumping unit and the good co-operation we have in this area with the Commission. Anti-dumping and countervailing duties are regarded as less objectionable in the international system. While recognising their limitations (and our vulnerability to similar action by other countries) we should generally prefer this kind of action to others;
- e) fifth, we can continue to do a lot for our Government procurement at home, but I attach much more importance to a procurement policy that assists our industry constructively than one that is simply as protective as the international rules allow;
- f) sixth - and this really must be the main emphasis - we must continue to seek better access for our exports and to use the GATT, as refined in the Tokyo Round, for this purpose. When the Minister for Trade and I travel, this is our over-riding priority. I shall continue, and so will the Commission, to press more advanced developing countries, as I did in Brazil last week, to cut their prohibitive tariffs and ease their quota controls. The present balance is too unequal and is increasingly resented - in my view correctly - by our industry as unfair;
- g) seventh, while I do not think that much can be achieved by general recourse on our part to non-tariff barriers (although we have our full share of them) I believe that we must continue, through the Commission and bilaterally, to press third countries to reduce or remove these barriers. Certainly we should not remove ours in advance of our competitors. Progress will be slow but we can build on past successes. And in the Community we must support the present exercise that is being done to tackle non-tariff barriers in the Common Market - remembering that more authority for the EC - and tougher action - may well rebound to our disadvantage. It cannot and will not go all one way;

- h) eighth, on some future occasion the Committee might like to consider some of the wider and more fundamental questions raised in paragraph 8 - should anything be changed? These are the questions for the future.

J. N.

Department of Trade  
16 May 1980

64

68

44

70

46

71

48

74

50

76

52

78

54

80

56

82

58

84

60

86

62

88



CONFIDENTIAL

ANNEX

BRITAIN'S TRADE IN MANUFACTURES - 1979

	Imports (cif)		Exports (fob)	
	Value £ billion	Per Cent	Value £ Billion	Per Cent
EC	15.4	49	12.7	38
EFTA	5.4	17	4.5	13
Rest of OECD in W Europe	0.6	2	0.9	2½
TOTAL: W Europe	21.4	68	18.1	55
US and Canada	4.1	13	3.7	11
Australia and NZ	0.3	1	1.0	3
Japan	1.4	4½	0.5	1½
TOTAL: OECD	27.2	87	23.3	70
E Europe	0.8	2½	0.8	2½
China	0.1	0	0.2	½
Total developing	3.1	9½	8.1	24
TOTAL: ABOVE	4.0	13	9.1	27
TOTAL TRADE	31.4	100	33.1	100
of which				
NICs *	3.0	9½	4.3	13
Developing NICs	2.0	6½	2.8	8½

\* including Spain, Portugal, Yugoslavia, Greece, Turkey, Poland, Romania, Hungary.

CONFIDENTIAL