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Tokyo Round in Geneva

Trade negotiators are now in Geneva, trying to reduce world-trade barriers at the Tokyo (Seventh) Round of the General Agreement on Tariffs and Trade (GATT). (The current round of negotiations began in Tokyo in late 1973—hence the name.) Working groups are dealing in Geneva with such topics as tariff and non-tariff barriers to trade, as well as the special trade problems of agricultural and tropical products. The negotiations could last for two or more years. If successful, they would lead to a substantial reduction in both tariff and non-tariff barriers, and hence to an expansion of world trade and to a worldwide increase in levels of production and consumption.

GATT was established in 1948 to coordinate the rules governing the trade of 85 percent of all the countries in the world, and it thus provides a forum for member countries to negotiate the reduction of trade barriers on a multilateral basis. Under its auspices, six different rounds of negotiations have been completed. The most recent one—the Kennedy Round of 1963-67—led to across-the-board tariff cuts averaging more than 35 percent on $40 billion of goods. Product groups characterized by advanced technology or capital intensity received the deepest tariff cuts, at least partly because trade in such products would presumably benefit from their relatively high price elasticities.

How much benefit?
According to an analysis of 1971 data by Stephen Magee of the University of Chicago, U.S. consumers could incur a long-run net gain of $1.4 billion annually from the elimination of tariffs. Considerably more—about $3.5 billion annually—could be gained from the removal of quotas on petroleum, steel, textiles, sugar, meat and dairy products. On the export side, Magee estimated that producers of nonfarm products alone could incur a long-run net welfare gain of about $380 million per year. He made no estimate of the net welfare effects of increased farm exports, but in view of the prevalence of foreign restrictive practices and the remarkable efficiency of U.S. agriculture, the gains to American farmers could dwarf other export gains.

Magee did not ignore the adjustment costs to U.S. producers in terms of the frictional unemployment caused by elimination of tariff barriers. Such costs could approximate $535 million a year over a five-year period. On balance, freer trade would benefit the national economy as a whole, but particular groups in the economy would suffer from shortrun adjustment problems.

From Tokyo to Geneva
Although the current round of multilateral trade negotiations had its genesis in a preliminary ministerial session of GATT in Tokyo in September 1973, negotiations are

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only now beginning because of the delay in obtaining Congressional approval of U.S. trade-reform legislation. (The law was eventually passed in late 1974 and signed by President Ford on January 3, 1975.) The Trade Reform Act authorizes the President for a five-year period to enter into trade agreements which can change existing tariff rates either up or down, as well as liberalize nontariff barriers and other distortions to trade. The Act states that a primary U.S. objective is fair and equitable access at reasonable prices to supplies of products that are scarce or not produced in the United States. The President is expressly authorized to make concessions in return for assurance of access to such supplies. The Act also provides for import relief and adjustment assistance, retaliation in case of unfair and illegal trade practices, and preferential concessions to less-developed countries.

A distinguishing feature of the Tokyo Round is its emphasis on reducing nontariff barriers to trade. Tariff barriers have declined in importance over time, after a series of reductions in the six earlier rounds of negotiations. But nontariff barriers persist, in the form of import quotas, voluntary restrictions, variable levies, exceptional customs-valuation procedures, health regulations, price controls, market allocations, supply restrictions, patent agreements, and other such restrictions.

The Trade Reform Act specifically authorizes the President to negotiate on several types of U.S. nontariff barriers—subsidies and the American Selling Price (ASP) system. Under the ASP, U.S. customs assess import duties on certain products (primarily benzenoid chemicals) on the basis of U.S. product prices, which are generally higher than those prevailing abroad.

Freedom of access

Earlier rounds of negotiation had emphasized freedom of access to final-product markets, but Tokyo Round negotiators are concentrating on a new problem, freedom of access to raw-material sources. Until the early 1970's, developed countries had experienced little trouble acquiring cheap and abundant raw materials from each other and from the less-developed countries. Consequently, they had been primarily interested in assuring unimpeded access to foreign markets for their own final products. But more recently, all the major Western nations experienced a simultaneous boom which placed great pressure on world supplies of raw materials. As a result, raw-material prices skyrocketed and many countries placed restrictions on exports of scarce materials. The final blow was the action of the OPEC countries in quadrupling petroleum prices as well as embargoing oil exports to countries considered friendly to Israel.

Tokyo Round negotiations are also concerned with the tendency of developed countries to offer special import preferences to the products of developing countries. This is a reversal of the postwar principle of non-discriminatory most-favored-nation treatment. For example, Title V of the U.S. Trade Reform Act gives the President authority to extend duty-free treatment to certain types of imports for up to ten years. The Tokyo Declaration of September 1973 recognized the importance of maintaining a generalized system of preferences to aid developing countries, in line with decisions adopted at the first session of the United Nations Conference on Trade and Development (UNCTAD) in 1964. Since 1964, participating industrial countries have all introduced individual preferential schemes, under which imports of a large number of manufacturers and semimanufactures from less-developed countries (up to a certain maximum amount) are permitted entry at zero or reduced tariff rates.

Chances for success

Just as before, trade agreements will be difficult to achieve at the Tokyo Round because of differing points of view of participating nations. For example, the U.S. wants agricultural trade barriers reduced because of the relatively high efficiency of U.S. farmers. The Europeans, on the other hand, remain opposed for fear that large-scale food imports would drive their small and inefficient farmers to the wall.

In addition, the success of the Tokyo Round will depend crucially on two opposing forces. On the one hand there is a cooperative force, produced by the realization that ever-expanding world trade has made individual nations increasingly interdependent. On the other hand there is a disintegrative force, produced by the need of individual nations (both developed and less-developed) to protect themselves against trade deficits resulting from oil-price increases. The latter force, if permitted to run rampant, would result in a dwindling of world trade. However, attempts by various international agencies to provide financial relief to deficit-suffering countries might ease the pressure from that source. Moreover, the Tokyo Round negotiations should in themselves help counteract the tendency to pursue beggar-thy-neighbor policies.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 6/18/75	Change from 6/11/75	Change from year ago Dollar	Change from year ago Percent
Loans (gross, adjusted) and investments*	86,113	– 563	+ 2,729	+ 3.27
Loans (gross, adjusted)—total	64,646	– 726	– 510	– 0.78
Security loans	1,433	– 922	+ 244	+ 20.52
Commercial and industrial	23,393	– 44	+ 24	+ 0.10
Real estate	19,578	+ 19	+ 190	+ 0.98
Consumer instalment	9,813	+ 14	+ 440	+ 4.69
U.S. Treasury securities	9,088	+ 92	+ 3,945	+ 76.71
Other securities	12,397	+ 71	– 706	– 5.40
Deposits (less cash items)—total*	85,920	+ 278	+ 6,948	+ 8.80
Demand deposits (adjusted)	23,547	– 395	+ 1,834	+ 8.45
U.S. Government deposits	1,082	+ 732	+ 109	+ 11.20
Time deposits—total*	59,842	– 236	+ 5,118	+ 9.35
States and political subdivisions	6,973	– 153	+ 145	+ 2.12
Savings deposits	20,207	+ 81	+ 2,326	+ 13.01
Other time deposits‡	29,078	– 184	+ 1,892	+ 6.96
Large negotiable CD's	15,709	– 155	+ 1,794	+ 12.89

Weekly Averages of Daily Figures	Week ended 6/18/75	Week ended 6/11/75	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves	77	41	63
Borrowings	0	0	258
Net free (+) / Net borrowed (–)	+ 77	+ 41	– 195
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+) / Net sales (–)	+ 2,374.5	+ 2,883.4	+ 1,606.7
Transactions of U.S. security dealers			
Net loans (+) / Net borrowings (–)	+ 940.7	+ 1,472.3	+ 495.9

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

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