The impact of freer trade—the Tokyo Round and the Seventh District

Jack L. Hervey

For centuries, governments have placed taxes on imported goods to raise their prices on home markets and discourage their domestic consumption. The purpose of these taxes, called "tariffs," is to shield domestic producers and workers from foreign competition.

Historically, the use of tariffs has been most extensive during times of increasing domestic unemployment. Governments have tried to stimulate domestic employment by limiting the inflow of foreign-produced goods, thereby shifting the burden of unemployment onto their trading partners. Invariably, such strategies have boomeranged. To protect themselves against such exportation of unemployment, foreign trading partners have imposed tariffs of their own. Such actions and counteractions were widespread in the 1930s as nations tried to escape the spreading worldwide depression. The final outcome of these trade wars was even higher tariff walls that increasingly hampered the flow of international trade.

By the time the world's trading nations realized the futility of their tariff actions, virtually all were surrounded by high protective walls that prevented them from reaping the benefits of international trade. After World War II the process of dismantling these barriers began.

The most recent major step toward easing restrictions on world trade took place December 17, 1979, when representatives of the major industrial countries and several developing countries signed a landmark multilateral trade agreement. That agreement grew out of negotiations that began in September 1973 under the auspices of the General Agreement on Tariffs and Trade (GATT). The Multilateral Trade Negotiations (MTN)—also called the "Tokyo Round" after the city in which they began—were the seventh round of international trade negotiations since the end of World War II.

Three of the seven rounds have been landmarks in the evolution of world trade policy. The first round of multilateral negotiations completed in 1947 led to the GATT and with it a framework of rules governing the actions of governments in world trade. The agreement also provided for sanctions to be applied when the rules were broken. In 1967 the sixth or Kennedy Round of tariff negotiations succeeded after five years in reducing industrial countries' tariffs by an average of two-fifths.

The major accomplishment of the recent seventh round of negotiations was to address, for the first time since the establishment of the GATT in 1947, the issue of nontariff distortions in world trade.[1] Unlike tariffs, which were reduced in previous rounds of negotiations to the point where they did not constitute major impediments to world trade, nontariff distortions continued to provide governments with a broad assortment of tools with which to discourage foreign competition in their home markets. Import quotas, "buy domestic" policies, differential product standards, inspection and licensing requirements, health and environmental standards,

[1]A distinction should be made between the concepts nontariff "distortions" and nontariff "barriers." Some government policies may distort trade relationships but may not be barriers to trade and may in fact increase the volume of trade. A case in point dealt with in the Tokyo Round was the government provision of export subsidies which distort trade relationships but at the same time may increase the volume of exports of the subsidized product.

export subsidies[2]—all proved useful to governments intent on maintaining or increasing the protection from foreign competition enjoyed by their domestic producers.

As world trade has increased, so has the importance of nontariff distortions. In part this is simply because, as tariffs were reduced, nontariff distortions have looked more important by comparison. But governments, still under pressure to protect domestic industry (in some cases increasingly so because of past reductions in tariffs), have adopted other means to restrict and distort trade.

The continued trend toward freer trade and the success of past negotiations in reducing tariffs served to focus attention on nontariff barriers. At its annual meeting in Tokyo in 1973, the GATT initiated discussions aimed toward reducing nontariff barriers. Nearly six years later, on April 12, 1979, representatives of industrial countries participating in the Multilateral Trade Negotiations signed an accord covering major issues of the negotiations. On July 26, 1979, President Carter signed the Trade Agreements Act, which ratified and implemented the agreements. The agreements, including reductions in tariffs also negotiated at the MTN, are scheduled to be phased in gradually—in some cases, over a period as long as ten years.

[2]Many trade distorting practices might appear to be unrelated to export or import trade and, in fact, restriction of foreign trade may not have been intended. It is just such practices that are often most effective in restricting trade and most difficult to remove. For example, a health department regulation that requires an inspector on the plant premises but does not allow reciprocal and comparable inspection by a foreign inspector in a foreign plant may effectively preclude importation of the foreign product. "Buy domestic" regulations may make it difficult for a foreign firm to make a competitive bid because of a required price differential (for example, a foreign bid must be 10 percent to 15 percent less than a domestic bid before the foreign bid will be considered). At the extreme, foreign firms are simply excluded from submitting bids. In still other cases, announcements for bids are made by invitation, rather than through public announcement, and foreign firms are not invited to submit bids. Such distortions number in the hundreds, are difficult to identify, and, as shown by the duration of the MTN, are even more difficult to remove.

Major provisions of the MTN

The basic purpose of the nontariff negotiations in the Tokyo Round was to establish rules and guidelines that would prevent otherwise reasonable domestic policies of a country, such as quality controls on food or drug manufacturing, safety requirements, or environmental controls, from becoming unseen barriers to international trade. The rules and guidelines evolved in the form of the following codes.

The Countervailing and Antidumping Duties Codes revised existing guidelines and regulations pertaining to the distorting effects of direct export subsidies, domestic subsidies, and dumping (selling of goods by an exporter in an import market at prices "less than fair value," generally interpreted to mean sale at a lower price than in the exporter's home market or below the cost of production). It also spelled out and standardized across countries the actions a government may take to counter the above practices.

Several changes were made in U.S. countervailing duty and antidumping law to conform with rules agreed upon in the MTN. Most important was the requirement that U.S. industry prove that "material injury" has resulted from foreign subsidies on goods imported into the United States before countervailing duties may be imposed. Under prior law a determination of "injury" was not required for countervailing duties to be imposed on dutiable goods but was required on goods imported free of duty. Prior U.S. legislation pertaining to dumping of goods in the U.S. market also required an "injury" determination. The term "material" was added to the concept of "injury" at the insistence of other industrial countries to prevent determinations of minor or inconsequential injury from triggering countervailing or antidumping duties. The 1979 act also required more expeditious handling of countervailing duty and antidumping investigations.

The Customs Valuation Code established a systematic procedure for determining the value of goods as a basis for imposing import duties. The primary valuation standard is to be the transaction value of the goods. However, depending on specific conditions, one of four alternate methods may also be used. The standardized valuation procedures eliminate the controversial U.S. American Selling Price valuation (on benzenoid chemicals, certain rubber-soled footwear, canned clams, and certain knit wool gloves and mittens) and certain controversial and arbitrary import valuation methods used by foreign countries.

The major advantage of standardizing tariff valuation procedures is that it contributes toward certainty in trade. Both exporters and importers will be enabled to predict with confidence the duty that will be applied to an item. Because uncertainty in any form is a major deterrent to trade, the removal of uncertainty by the customs valuation code should lead to an expansion of trade.

Implementation of this code will not change significantly the effective tariff on goods formerly subject to the American Selling Price scheme. The tariff rate schedule for such goods was adjusted so that the effective rate will remain approximately the same.

The Government Procurement Code attacked the problem of discrimination against foreign goods in the purchase of materials used by governments. The U.S. government, through formal legislated preferences for domestic producers, has openly discriminated against foreign suppliers. Most other countries have discriminated against foreign suppliers through hidden administrative rules and practices.

The intent of the government procurement code was, first, to establish specific and visible rules governing government purchases, bid procedures, and the like and, second, to grant foreign suppliers increased access to the large government market for goods. Provisions of this code, as far as the United States is concerned, took effect upon enactment of the ratifying legislation in July 1979, except that certain Presidential waivers were granted until January 1 of 1980 and 1981.

The Product Standards Code was probably the most difficult and ambiguous of the nontariff codes. It was designed to discourage the discriminatory application to imports of quality control standards, testing procedures, certification requirements, and other similar domestic health, safety, security, and environmental rules and regulations. The important purpose of this code is to ensure access to markets to both domestic and foreign suppliers.

The MTN legislation also approved a number of bilateral agreements on trade in cheese and other dairy products and meats. U.S. import quotas on cheese were relaxed, but the proportion of total cheese imports subject to quotas was increased. Prior to the quota increase, about 50 percent of cheese imports entered under quota while about 85 percent will be subject to the expanded quota. The minimum level of beef imports was also increased somewhat, but this is expected to have little practical effect because imports have been above the minimum level in most of the past ten years.

The Trade Agreements Act extended the negotiating authority of the President pertaining to nontariff barriers for eight years until January 3, 1988. This will permit the continuation of negotiations on several issues that were not settled in the latest round and will permit negotiations on other types of nontariff barriers.

Tariff reductions

In addition to lowering some nontariff barriers, the MTN achieved a significant further reduction in tariffs. The Trade Act of 1974, which formally authorized the United States to participate in the Tokyo Round, granted negotiating authority for the reduction of U.S. import tariffs, without further congressional actions, by up to 40 percent from the January 1, 1975, level. It also authorized the elimination of tariffs that were 5 percent *ad valorem* or less as of that date. Reductions negotiated outside this range were required to be approved by the Congress.

Thus, the Trade Agreements Act of 1979 approved certain tariff concessions, such as the elimination of tariffs on civilian aircraft,

Tariff rates reduced in the MTN (Global rates)[1]

	U.S.	EC	Japan	Canada
			(percent)	
Dutiable imports				
Pre-MTN average tariff levels	8.2	9.8	6.9 (10.8)[2]	13.1 (15.5)[2]
Post-MTN average tariff levels	5.7	7.2	4.6 (5.4)[2]	8.7 (9.4)[2]
Percentage tariff reduction—industrial goods	31	27	28 (50)[2]	34 (39)[2]
Dutiable imports plus duty-free imports				
Pre-MTN average tariff levels	6.1	6.3	3.2 (5.0)[2]	9.9 (11.7)[2]
Post-MTN average tariff levels	4.2	4.6	2.3 (2.5)[2]	6.6 (7.1)[2]

[1]Tariff rates are the weighted average of imports from all sources that have most-favored-nation (MFN) status. The United States, as a rule, has denied MFN status to communist bloc countries. Only China, Hungary, Poland, and Romania have been granted MFN status by the United States.

[2]Canada and Japan had previously reduced tariffs from their legally permitted rates. The percentages in parentheses reflect the legal rates.

SOURCE: Office of the Special Representative for Trade Negotiations.

which were not provided for in the tariff-cutting authority of the Trade Act of 1974. However, most of the tariff concessions negotiated in the MTN did not require congressional approval.

The trade-weighted reduction in current tariff rates negotiated for dutiable industrial goods amounted to about 34 percent for Canada, 31 percent for the United States, 28 percent for Japan, and 27 percent for the European Community (EC).[3] In percentage terms the tariff cuts were substantial, but because most tariff rates were already fairly low, the effective reductions were quite small. After all of the tariff reductions have been made, the average tariff rate for the industrialized countries for all goods traded will decline only about 2 percentage points, from 6.2 percent to 4.3 percent. The tariff reductions are scheduled to take place over the next eight years (in some cases it may be up to ten years), thereby further diluting their rather modest impact.

Implications of the MTN for the United States

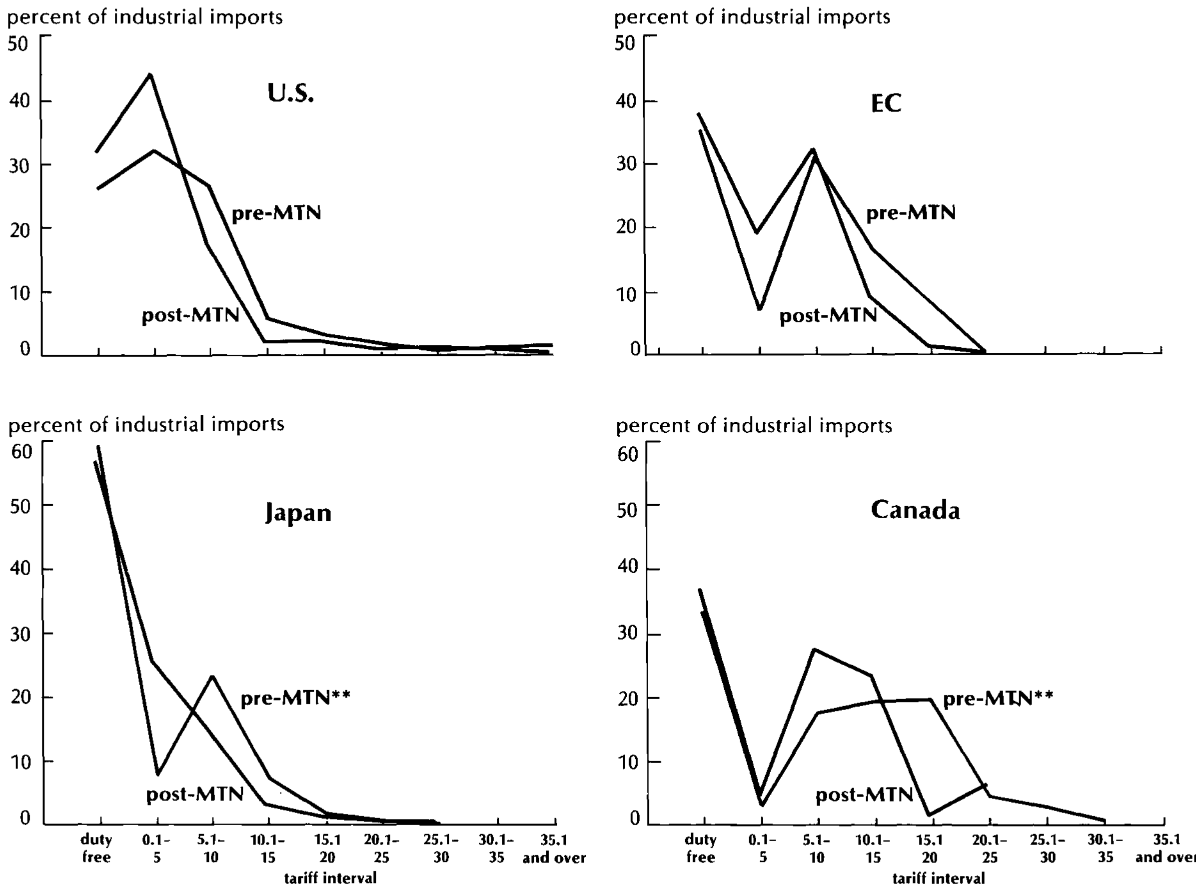
The underlying rationale for the U.S. government's participation in negotiations aimed at reducing trade distortions and barriers is that the freer trade made possible by such reductions will result in an increase in national economic welfare. If this were not true, it would be difficult for the government to justify becoming a party to the agreement. The gains from trade—in terms of increased income and employment associated with export industries and the higher employment, lower cost of goods, and wider selection of goods resulting from increased imports—must exceed the losses from the displacement of production and employment in domestic industries that occur because of increased imports.

In analyses of the gains and losses attributable to changes in trade restrictions, the direct gains and losses in production and employment typically receive the greatest emphasis. In part this is because it is extremely difficult to measure the broader welfare effects of such changes. The difficulty stems from the fact that many of the gains from trade due to reductions in trade restrictions are indirect. For example, reduced import prices due to lower tariffs not only benefit consumers directly, but also result in downward pressure on domestic prices of competing goods. Furthermore, as import barriers are lowered, there is a corresponding increase in the range of choices open to consumers in the market place. Undoubtedly, the consumer is benefited by both indirect effects, but it is difficult to quantify them.

More importantly, benefits are diffused among a large number of consumers, few of whom are so strongly affected by the changes

[3]In some countries tariff rates applied to imports had previously been reduced unilaterally from the legal rates, primarily as an anti-inflation measure. In Japan, for example, the average tariff reduction on dutiable industrial goods from the legal, or "bound," rate was 50 percent, considerably greater than the 28 percent reduction from the rates actually applied. For Canada the reductions from the bound rate averaged 39 percent as compared to a 34 percent reduction from the actual rates.

The distribution of import tariffs tightens as a result of the MTN*



*Percentages are based on the value of industrial imports falling within specified tariff intervals. The tariff interval data are based on 1976 trade data.

**The tariff intervals for Canada and Japan refer to the rates actually applied,which were lower than the legal rates.

in import barriers as to take an active interest in them. In contrast, cutbacks in domestic output and employment tend to be concentrated within relatively few companies and affect only a small number of workers. These companies and workers have strong incentives to oppose changes that adversely affect them. Consequently, the adverse effects on domestic output and employment that would result from a reduction of import barriers are more closely studied and receive more attention than the often greater, but highly diffused, benefits to consumers.

Assuming that the overall welfare impact of the MTN agreement on the U.S. economy can be determined, there are several reasons for expecting it to be modest. First, in absolute terms, the tariff reductions are small. Second, to the extent that the reductions in nontariff restrictions are quantifiable, they are quite limited in scope and are small in comparison with the size of the overall economy. Third, implementation of the MTN provisions is scheduled to take place over an extended period, which will greatly dilute the impact on overall trade, employment, and prices in any individual year.

Several studies have been undertaken that provide estimates of the impact of the tariff cuts and reductions in nontariff distortions on employment, prices, and trade. One such study estimates that if all the tariff and nontariff changes were implemented at one time, the overall economic welfare impact of the trade agreement would be less than one-tenth of one percent of U.S. gross domestic product.[4] Based on the 1976 data used in that analysis, this would have been a net welfare gain of $1.0 billion to $1.5 billion. In terms of 1979 data, the net welfare gain for the United States might have totaled between $1.4 billion and $2.1 billion.

Reduction in trade barriers will increase economic welfare[1]

	Percentage increase in GDP[2]	Change in welfare based on 1979 GDP[3]
		(billion dollars)
United States	.06 to .09	1.4 to 2.1
EC	.13 to .26	3.1 to 6.2
Japan	.03 to .06	0.3 to 0.6
Canada	.17 to .35	0.4 to 0.8
Average of 18 industrial countries	.08 to .18	5.2 to 11.7

[1]Alan V. Deardoff and Robert M. Stern, *MTN Studies Part 5: An Economic Analysis of the Effects of the Tokyo Round of Multilatera. Trade Negotiations on the United States and the Other Major Industrialized Countries*, prepared for the Subcommittee on International Trade, Committee on Finance, United States Senate, 96th Congress 1st Session (GPO, June 1979), p. 103.

[2]Calculations based on gross domestic product in 1976. Estimates assume the full effect of the reductions in tariff and nontariff barriers takes place immediately.

[3]Calculations, based on Deardorff and Stern, assume the relationship between the change in economic welfare and gross domestic product in 1976 holds for 1979.

The same study estimates that the trade agreement may result in a net addition of only about 11,000 jobs (a net gain of 42,000 jobs in agriculture and a net loss of 31,000 in other sectors of the economy). While other estimates differ somewhat, they have in common the conclusion that the overall impact of the MTN on employment will be small in comparison to total employment. Furthermore, the impact, whether beneficial or detrimental, will be diluted by the considerable length of the implementation period. Normal changes in employment—increases in employment opportunities, increases in the total labor force, natural attrition due to retirement, and regular job turnover—will greatly exceed the effects of the MTN.

The probable impacts on prices are also small. The MTN agreement should result in about a 2.5 percentage point reduction in average tariff rates on U.S. imports subject to duties and only about a 1.9 percentage point reduction in average tariff rates on all U.S. imports (the combined average rate on goods subject to duties and goods that are duty free). According to one estimate, in the unlikely event that all of the benefit of the lower tariffs were to be passed along and if all the tariff reductions were implemented at one time, this would reduce U.S. consumer prices by a minute 0.07 percent from what they otherwise might be.[5] Estimates by the Office of the Special Trade Representative of the price impact of the tariff and nontariff agreements are somewhat higher—a reduction in the price level by as much as 0.6 percent.[6]

Another complicating factor affecting the eventual impact on prices in the United States is the effect of the Tokyo Round on exchange rates under the present flexible exchange system. To the extent that the Tokyo Round results in an increase in U.S. exports greater than the increase in imports (contributing toward a net positive trade balance), the U.S. dollar will tend to increase in value relative to other currencies and exert downward pressure on the U.S. price level. Should imports increase more than exports, the tendency would be toward a depreciation of the dollar and upward pressure on prices.

Most observers expect a net increase in

[4]Alan V. Deardorff and Robert M. Stern, *MTN Studies Part 5: An Economic Analysis of the Effects of the Tokyo Round of Multilateral Trade Negotiations on the United States and the Other Major Industrial Countries*, prepared for the Subcommittee on International Trade, Committee on Finance, United States Senate, 96th Congress 1st Session (GPO, June 1979), p. 63.

[5]*Ibid.*, p. 100.

[6]Executive Office of the President, Office of the Special Representative, *Impact of the MTN on Inflation* (Washington, May 11, 1979), p. 3.

U.S. exports to result from the Tokyo Round, and thus an appreciation of the dollar that will reinforce the price-reducing effects of lower tariffs and reduced trade restrictions. According to estimates in one study, however, net exports by the United States will be reduced slightly by the tariff and nontariff concessions of the MTN.[7] If so, the likely results would be a slight depreciation of the dollar and a corresponding upward pressure on prices, offsetting to some degree the price-reducing influence of reduced trade restrictions.

Manufacturing, the MTN, and the Seventh District

According to a 1976 Commerce Department survey, Seventh District states contribute 22 percent of the nation's total value of manufactured goods production.[8] In two major categories, nonelectrical machinery and transportation equipment, the five District states account for nearly one-third and two-fifths, respectively, of total U.S. production. Production in the food processing and electrical machinery industries is also concentrated in the District, but to a somewhat lesser degree—District states account for about 23 percent and 25 percent, respectively, of the U.S. total. These four broad industry categories account for over half of the total output of manufactured goods in the Seventh District, as compared with two-fifths for the United States.

Exports of manufactured goods from Seventh District states totaled about $36 billion f.a.s. port of export or about $30 billion valued f.o.b. plant in 1979, according to estimates based on the 1976 Commerce Department Survey. This was 25 percent of the value of all manufactured goods exported from the United States. Nonelectrical machinery shipments were particularly important components of the District's exports of manufactured goods, comprising nearly one-third of the total. Transportation equipment, primarily autos and automotive equipment shipments to Canada under the U.S.-Canada Automotive Products Agreement, made up more than one-quarter of the District's exports. Electrical machinery accounted for nearly a tenth of manufactured exports, and food products made up another 7 percent. In aggregate, these four broad categories of manufactured goods—electrical machinery, nonelectrical machinery, transportation equipment, and foods—accounted for three-quarters of manufactured exports originating within Seventh District states. In comparison, these same categories accounted for three-fifths of U.S. exports of manufactured goods.[9]

Nationwide, those manufacturing industries expected to gain the greatest benefit from the results of the Tokyo Round negotiations are the comparatively high-technology industries associated with transportation equipment (primarily aircraft), construction and agricultural machinery, and chemical production. Industries expected to be affected adversely over the eight- to ten-year period of the MTN's implementation are clothing and wearing apparel, radio and television manufacturing, lumber and wood products, and miscellaneous manufacturing such as sporting goods, musical instruments, and toys.

The primary benefits in terms of output and employment in manufacturing industries in the Seventh District states should show up in the nonelectrical machinery industries. Some of these gains will be direct in the form of increased exports and some will be indirect in the form of increased domestic sales to support expanded exports of agricultural commodities that result from the MTN agreements. It would appear, however, that losses in industries such as miscellaneous manufacturing, electronics (especially television output, which is heavily concentrated in Seventh

[7]Deardoff and Stern, p. 93.

[8]U.S. Department of Commerce, Bureau of the Census, "Origin of Exports of Manufacturing Establishments," *Annual Survey of Manufacturing Establishments* (Washington, June 1978), p. 2.

[9]For a more detailed discussion of Seventh District exports, see Jack L. Hervey, "Midwest—leading export region," *Economic Perspectives* (Federal Reserve Bank of Chicago, May/June 1979), pp. 10-17.

District states), and food processing may result in a small net reduction in manufacturing employment in the District.

In any case, the gains or losses are expected to be small in relation to total employment within the affected industries—in most cases less than 1 percent of the total. Estimates that have been made of the employment effects of the MTN indicate that normal growth in the economy and in demand for manufactured goods is expected to more than compensate for any depressing impact caused by the implementation of the trade agreements over the phase-in period. The reduction in trade restrictions is not likely to result in a reduction in total manufacturing employment, but may retard its growth over time.

Agriculture, the MTN, and the Seventh District

Inclusion of the agricultural sector provides a positive picture of the impact of the MTN on the economy of the District. Foreign markets are even more important to Seventh District agriculture than to manufacturing. In fiscal 1978 agricultural exports from the Seventh District states totaled nearly $8 billion, more than 26 percent of the U.S. total and about 30 percent of the aggregate cash receipts from farm marketings in the five states.[10]

The most important products produced, in terms of domestic sales receipts, were livestock, feed grains, soybeans, and dairy products. The most important products exported by District states were feed grains, soybeans, and meats. The Seventh District agricultural products that faced the greatest import competition were dairy products, meats, and fruits and vegetables.

It has been estimated that, as a result of tariff reductions and increases in quotas, U.S. agricultural exports would increase by about 2 percent, or $460 million (based on 1976 trade after full implementation of the agreements), with most of the increase in shipments going to Japan, the European Community, and Canada.[11] Imports are estimated to increase a little over $100 million, for a net gain in total U.S. agricultural exports of nearly $360 million.

The primary gains from foreign trade concessions would appear to be in meats and meat products and to a considerably lesser degree in grains, soybean and oil seed products, and vegetables and noncitrus fruits. Assuming the Seventh District states benefit from the MTN changes in these categories in proportion to their share of U.S. exports of these broad categories of goods, the MTN might result in increases in District states' exports of meat and meat products by $80 million, of grains and soybeans by nearly $6 million, and of fruits and vegetables by about $3 million. The increase in District states' agricultural exports attributable to the MTN would be about $90 million or about 20 percent of the total increase for the United States.

On the import side, the United States granted foreign countries a number of tariff concessions on agricultural products. Only one of the concessions is of significance to the District—an increase in quotas on the importation of cheese. Beginning in 1980, the annual quota on cheese imports is nearly 109,000 metric tons, an increase from 58,000 metric tons in 1978 and 1979.

The potential increase in imports is far less than the 51,000 ton difference, however. Prior to the MTN agreement, some cheese, referred to as "price break" cheese, could enter the United States outside the quota if the import price was sufficiently above domestic support prices. In 1978 cheese imports totaled about 109,000 metric tons (about 50,000 tons under quota and about 60,000 tons under "price break"), or approximately the same as the 1980 quota, which includes all cheeses except goat's and sheep's milk

[10] *Ibid.*, p. 12.

[11] James P. Houck, *MTN Studies Part 2: The Tokyo/Geneva Round: Its Relation to U.S. Agriculture*, prepared for the Subcommittee on International Trade, Committee on Finance, United States Senate, 96th Congress 1st Session (GPO, June 1979), p. 63.

cheeses, French Roquefort, English Stilton, and soft cured cheese. It has been estimated that if the entire 1980 quota were filled and nonquota imports brought the volume up to 124,000 tons, the increase over the volume actually imported in 1978 would be equivalent to about 0.25 percent of total annual U.S. milk production—about 0.9 percent of U.S. cheese production—and would amount to about 0.5 percent of the $12.7 billion in cash receipts from U.S. dairy production in 1978, or about $66 million.[12]

Seventh District states account for about 28 percent of U.S. cash receipts from dairying, with the state of Wisconsin alone accounting for over 17 percent of the total. If the increased quotas were filled and if nonquota imports brought the total to as much as 124,000 tons, District state farmers' dairy receipts, which totaled $3.5 billion in 1978, might be reduced by as much as $18 million—still only about a 0.5 percent reduction in receipts from dairying for the District states as a whole.

The projected $11 million reduction in receipts in Wisconsin, the District's most important dairy state, would be equivalent to less than 5 percent of the increase in receipts from dairying between 1977 and 1978. Given normal growth in demand, the industry should be able to adjust easily to the increase in imports. However, areas heavily dependent on dairying may be expected to experience some pressure on farm income.

An area of potential gain resulting from the MTN derives from the "binding" of tariffs for certain commodities. For example, Japan agreed to bind tariffs on soybeans at their current duty-free base. This means that Japan will not impose tariffs on soybeans in the future to restrict the inflow of this rapidly increasing import. Although there is no immediate direct benefit to U.S. exporters, the effect is to facilitate access to the Japanese market in the future. Of total bindings obtained on U.S. agricultural exports worth $1.3 billion in 1976, $1 billion was granted by Japan and five other countries on soybeans and soybean products.

The measurable net gain in agricultural exports resulting from the MTN, based on 1976 trade, is estimated at approximately $360 million for the nation as a whole (about 1.6 percent of the total) and $72 million for the Seventh District states (about 1.2 percent of the total). Adjusted to the level of 1979 trade, the net gain for the United States and the Seventh District states may have been about $560 million and $110 million, respectively. The differential impact of the agreement leaves Seventh District states with a smaller marginal gain from the MTN (about 20 percent of the gain) than their present overall share in U.S. agricultural exports (about 26 percent). As was the case with manufactured goods, the measurable impact of the trade concessions affecting agriculture obtained by the United States in the Tokyo Round negotiations will not be large. The impact will be further diluted by the long adoption period for many of the concessions.

Conclusion

The conclusion of the MTN will not result in dramatic changes in U.S. international trade. On the whole, it appears that the U.S. economy will derive a net benefit from the agreements, but any benefits will be diffused over a substantial period of time and will be relatively small. After taking into account the rather small sector gains and losses in production and employment, and the impact of the MTN on prices, the primary benefit from the Tokyo Round may be the intangible fact that the participating nations were able to conclude some reduction in trade barriers in a worldwide atmosphere of reemerging protectionism. The framework for international negotiations on trade-related issues not only remained intact but was strengthened. This is of vital importance to Seventh District states, which depend heavily on foreign trade to support economic activity.

[12] *Ibid.*, p. 69.