

centage terms, the merchandise trade balance has declined from 26.5 percent of exports in 1964 to 11.6 percent in 1967. There has been a further deterioration during the first quarter of 1968, and in March the merchandise trade account was reported in deficit.

B. Government financed exports

The merchandise trade data referred to above is not incorrect. It is, however, improper data to use in assessing our international commercial strength for purposes of determining national posture in trade bargaining. That portion of our exports which are Government financed do not fairly represent our commercial ability in world trade. Deducting Government financed exports from the U.S. merchandise trade surplus makes an appreciable difference in our apparent trade strength as shown in the comparison in Table II below.

TABLE II.—COMPARISON OF U.S. MERCHANDISE TRADE DATA, 1958-67

[In billions of dollars]

	1960	1961	1962	1963	1964	1965	1966	1967
Balance on merchandise trade.....	4.8	5.5	4.4	5.1	6.7	4.7	3.7	3.5
Balance excluding Government-financed exports.....	2.8	3.2	2.1	2.4	3.9	2.0	.6	.2

Source: Ibid.

The adjustments for Government financed exports are especially important in the case of the United States, for a large portion of such exports result from tied aid and so do not represent a commercial choice by the recipient.

In addition to those exports now reported in the memorandum item as Government financed, data should ideally be further adjusted (for purposes of assessing trading strength) for certain agricultural exports. That portion of agricultural products raised only by virtue of a Government subsidy which in turn permits sales at lower prices in international markets should not be considered in appraising our international commercial ability.

C. Basis of import valuation

Without seeking to argue the relative merits of F.O.B. versus C.I.F. import valuation, the fact is that while the U.S. values imports on an F.O.B. basis, other nations use C.I.F. While use of F.O.B. rather than C.I.F. has no impact on our overall balance of payments, it does result in a more favorable reporting of the merchandise trade position than the system used by other countries. The Department of Commerce has computed a factor of 8.9% to adjust imports from an F.O.B. to C.I.F. basis. Using that factor for adjustment would raise 1967 merchandise imports to \$29.3 billion leaving a surplus of only \$1.1 billion, an amount dwarfed by the size of the adjustment required to net out Government financed exports. Those two adjustments together would yield a commercial trade deficit of \$2.2 billion in 1967.

D. U.S. share of world trade

An analysis of the U.S. share of world trade also raises questions about the assumption of our commercial superiority. U.S. exports related to world exports declined from 18.2 percent in 1960 to 16.8 percent in 1966.¹ While this clearly shows the important role the United States continues to play in world trade, it does not support the assumption of a broad and growing commercial superiority.

E. The choice of a base year

The base year chosen for data to be used in the Kennedy Round negotiations was 1964. There is ample evidence that this might well have been a major factor in U.S. assumptions of commercial superiority. As was shown above, the merchandise surplus reached a peak in 1964. It is necessary to go back to the immediate post-World War II period, when the rest of the world's economic base stood in ruins to find surpluses of this size. On the basis of that data, and presumably trends based on data through 1964, negotiations were carried out. The U.S. position has since abruptly changed. Based upon 1965, 1966, and 1967 trade

¹ I.M.F., *International Monetary Statistics*. Preliminary data suggest some improvement in 1967 over 1966.