

U.S. Relations with Iran, Japan, and Canada: Impact for Oregon?

U.S.-Iranian tensions, Japanese political elections, and a free trade agreement with Canada may seem to be issues remote from the pocketbooks of Oregonians, particularly rural Oregonians, however, that is not the case. Because of the hostage crisis in 1979, the U.S. froze Iranian assets in this country and diplomatic and trade relations with Iran were broken, thereby removing Oregon's third largest agricultural trading partner and \$200 million from Oregon's economy.

The internal scandals and unpopular taxes which have eroded the strength of Japan's Liberal Democratic Party (LDP) also pose a threat to Oregon's economy. Japan purchases one-third of Oregon's exports and the LDP program of freer international trade is of vital importance to this state's industry.

The U.S.-Canadian Free Trade Agreement (FTA), and subsequent agreements to be reached on wood and dairy products, have implications of export and import competition for Oregon producers of agricultural and food processing products.

Oregon's economy is part of a complex global system, and Oregon citizens are members of an international society. The United States has long been an important international player politically, and as U.S. involvement in world economic events has increased, individual states have been increasingly active.

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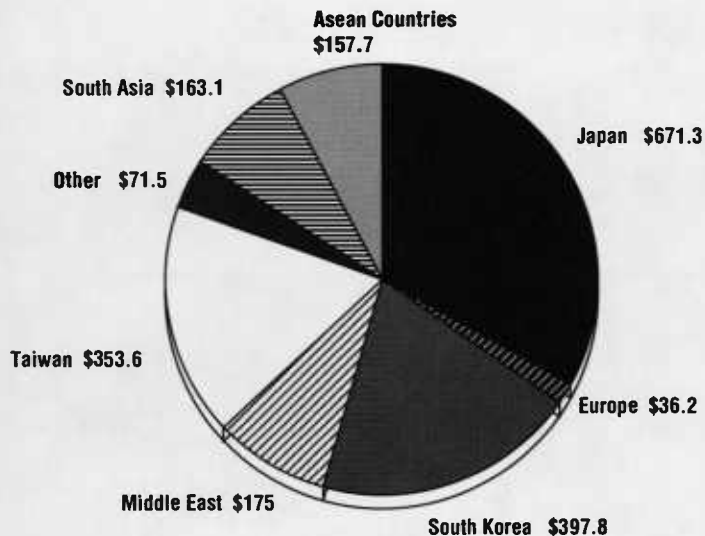


Oregon has a special role to play in international markets. Located on the Pacific Rim, Oregon has access to some of the most dynamic economies in the world. Oregon's leading trading partner, Japan, has emerged as one of the wealthiest nations, with an average per capita income equivalent to over \$20,000 in U.S. currency per year. Korea and Taiwan are two of the fastest growing economies in the world. Korea, for example, experienced real economic growth of nearly ten percent per year between 1983 and 1987. Canada, a major developed market economy, is also on the Pacific Rim.

Oregon is the entrance point for a wide variety of imported consumer goods and industrial products. Steel, alumina ore and cement are among the leading imports through Oregon. It is also a popular exit port for U.S. products and commodities bound for Asia.

Because of its favorable climate and abundant natural resources, Oregon has become a principal exporter of lumber and wood products as well as a variety of raw and processed agricultural commodities. Conversely, Oregon's industries and consumers rely on imports to fill a number of needs. While links to the international markets create many exciting opportunities, they also present challenges. Events which may at first appear remote and distant, can have real and meaningful impacts for Oregon's economy and its citizens.

Exports by country & region, value of 1988 exports by Oregon firms*



Source: *Journal of Commerce*

*Port of Portland figures exclude truck and rail shipments, therefore exports to Canada are not reflected here.

Exports for Port of Portland - 1988 = 12.7 million tons

Products/Commodities	%	Destinations:	%
Grains (wheat & barley)	70.0	Japan	33.0
Logs and Lumber	7.0	Egypt	15.0
Wood Chips	6.0	Korea	9.0
Soda Ash	4.4	India	6.0
Scrap Metal	1.3	Philippines	5.0
Other	11.3	Peoples Republic of China	5.0
		Pakistan	5.0
		Taiwan	4.0
		Others	18.0

Imports through the Port of Portland - 1988 = 2.6 million tons

Products	%	Origins:	%
Autos, vans and parts	18.3	Japan	29.1
Limestone ore	16.3	Canada	20.6
Alumina ore	12.1	Australia	12.3
Salt	10.5	Mexico	10.3
Iron and steel products	9.6	Korea	7.0
Cement	7.6	People's Republic of China	2.6
Gasoline	6.2	Others	18.9
Others	19.4		

U.S.-Iranian Relations

Because of U.S.-Iranian tensions, Oregon lost its third largest agricultural trading partner and \$200 million of agricultural trade from its economy. Prior to the 1979 revolution, the U.S. was Iran's leading trade partner and, with a population of 37 million, Iran was the seventh leading market for U.S. exports. In 1978, U.S. exports to Iran totalled \$3.7 billion. Trade with Iran was particularly important to agriculture in the Pacific Northwest as Iran was the third most important market for its farm output, principally wheat. Until 1979, Iran annually purchased about one in every five bushels of wheat produced in Oregon. For example, in 1978 Iran bought \$1.1 million metric tons of PNW white wheat with a value of more than \$150 million.

Beyond wheat, Iran also purchased sizeable quantities of logs, lumber, paper, fruits, vegetables, and processed food products. If a return to more normalized relations leads to any recovery in bilateral trade, it could result in significant increases in export sales from Oregon and the region. Even if half of the prior sales levels were restored, exports from this region could increase by as much as \$100 million.

Because the Iranian market has had such economic importance to the state, Oregonians need to understand how U.S.-Iranian relations developed, what the current situation is, and what steps would be necessary for trade to resume.

Background to current situation

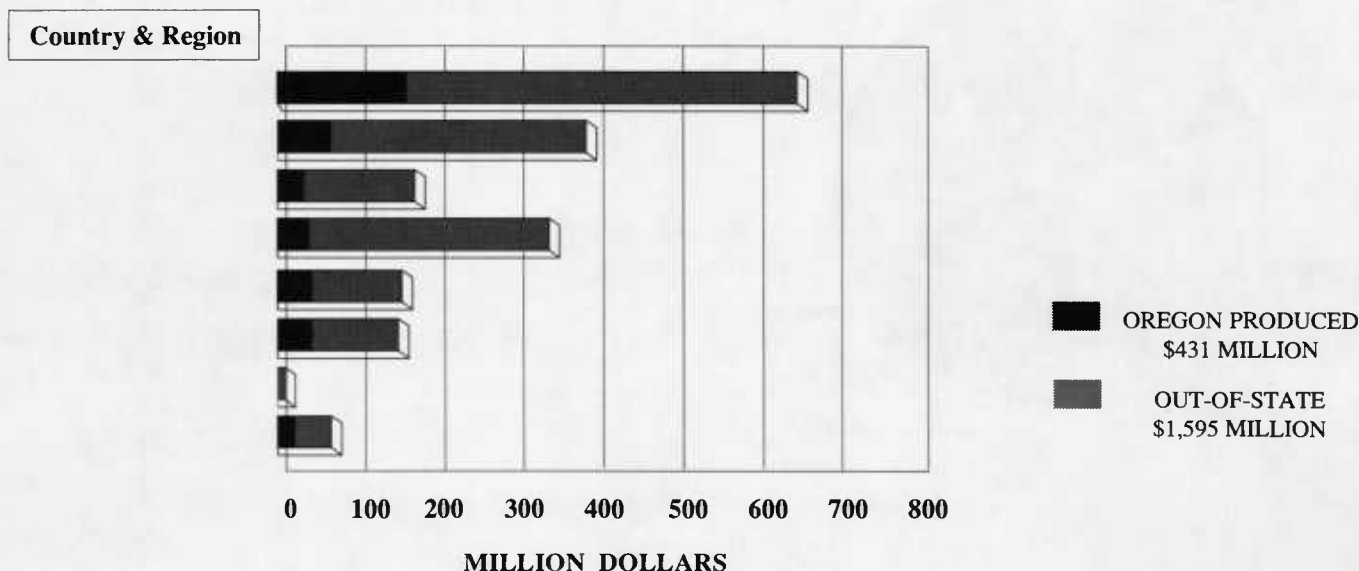
The close political and economic relationship between the U.S. and Iran which had been built through two decades, crumbled overnight when diplomatic ties between the two countries were broken in 1979. Trade with Oregon, as with all other U.S. states, ceased.

Events leading up to this break included the ouster of Shah Mohammed Reza Pahlavi by Ayatollah Khomeini and public condemnation of the Shah in the immediate post-revolutionary period. Many Iranians believed that the U.S. government had supported the Shah and was therefore responsible for abuses under his reign. Inflamed anti-American sentiment led to the American hostage crisis at the U.S. Embassy, which in turn gave rise to an anti-Iranian outcry in the United States and, ultimately, to the complete break of diplomatic and economic ties.

The Iran-Iraq war further destabilized a region already in crisis. As a consequence, economic growth and international trade activities declined for the entire middle-eastern region. We've already seen how Oregon lost annual sales of 10 million bushels of wheat, and the Pacific Northwest 40 million, as the result of severed trade ties. Although other, simultaneous events masked the blow of this market loss to producers, Oregon exporters searching for new markets found few opportunities in the Middle East.

U.S.-Iranian relations have vacillated between frigid and hostile during the ten years since the Shah's ouster. The

Destination of Oregon vs. out-of-state products handled by Oregon firms, 1988*



Source: *Journal of Commerce*

*Port of Portland figures exclude truck and rail shipments, therefore exports to Canada are not reflected here.

Iranian Airlines disaster in 1988 added further fuel to the fires of those in Iran who characterized the U.S. as the "great Satan" and the prospects for resuming diplomatic and trade relations looked grim.

Signs are only beginning to appear that the Iranian situation is changing. The death of Ayatollah Khomeini in 1989 has brought to power a new government. Improved relations, and perhaps resumption of trade, may be possible in the not too distant future. Hashemi Rafsanjani was recently elected President. Although Rafsanjani's power base remains somewhat fragile, all signs are that the Iranian Cabinet appointed by him is likely to be considerably more moderate and more pragmatic than its predecessors.

While it is highly unlikely that the Shiite Moslem regime will be ousted in the foreseeable future, it is possible that a more moderate and westward leaning regime will ultimately evolve in Iran. Early signs from the Rafsanjani government are that they will seek some sort of rapprochement with the U.S. and other western allies.

The Iranian economy, in serious disarray, needs to reestablish relationships with the West. Clearly, a return to more normal U.S.-Iranian relations is in the best interests of the Oregon economy. If it were possible to recapture some share of the market lost in 1979, the impact would be noticeable in many sectors of Oregon's economy. Of course, agricultural producers, particularly of wheat, would benefit. In the long run, other industries could benefit as well. Once trade relations are reestablished, Iran could again be a solid market for fruits, processed vegetables, grass seeds, logs, and wood products.

Increases in export sales have what economists call a multiplier effect on the state's income. For example, each dollar generated from the sale of wheat is estimated to produce .877 in new income. Regaining half the Iranian wheat market held prior to 1979 could contribute \$21 million in sales value and approximately \$18 million to Oregon's personal income. ¹

How can relations improve?

The first move toward improved relations correctly belongs to Iran. If the new government can arrange for the release of hostages still being held in Beirut (or Iran), the first step will have been made. The U.S. foreign policy position is that release of the American hostages is the non-negotiable precursor to any improvement in U.S.-Iranian relations. If Iran shows an interest in taking this essential step toward easing tensions, the U.S. must be prepared to reciprocate.

Patience may be our most successful strategy. If Rafsanjani is to shape a more moderate government, he must do so cautiously. Khomeini's death brought forth what many Americans may have interpreted as an outpouring of Islamic orthodoxy. To facilitate his regime, Rafsanjani must be cautious in his dealings with the more radical mullahs, especially those who followed closely in the Ayatollah's footsteps.

Present U.S. policy is to allow events to unfold at their own pace within Iran. The U.S. has not initiated any action to change either the pace or direction of events. U.S. initiation of action, or over-eagerness on our part, could actually backfire. Confrontations with re-energized anti-American activists must be avoided. It is likely that Iran will seek closer relations with the Soviet Union. Although this would have threatened U.S. interests in the Middle East at one time, it no longer does since any move by Iran away from the isolationist practices of Khomeini's era will enhance stability in the Middle East and Oregon's economy will ultimately benefit from such stability and from a more moderate, more open Iran.

For all the rhetoric and saber rattling that has occurred over the last decade, there are still many close personal relationships between Iranians and Americans. A large number of Iranians have been educated in America and maintain a taste for things American. This, along with domestic Iranian pressure for economic improvements after eight years of deprivation during the Iran-Iraq war, should serve to smooth the way toward improved trade relations as diplomatic normalization occurs.

¹ *Contribution of the Oregon Wheat Industry to Oregon Economy.* Martin, Michael and Hans Radtke. August 1986, Station Bulletin 668, Agricultural Experiment Station, Oregon State University, Corvallis, OR 97331.

Japan's Internal Politics

Why would Oregonians want to follow domestic Japanese politics? For one thing, Japan is Oregon's leading trading partner, as well as one of the world's wealthiest nations. Events in Japan which have the potential to increase or decrease U.S. trade with Japan and/or Japanese investment in the U.S. have important economic implications for Oregon.

Trade between the U.S. and Japan is critical to both nations. In 1988 Japan purchased \$36.3 billion dollars of American products while selling \$89 billion worth of goods in the United States. A significant portion of this multi-billion dollar trade is shipped through the port of Portland. Traded goods that pass through the state generate local revenue for freight handlers, forwarders, transportation providers, and financiers.

Until recently it was expected that this trade would expand. Despite Japan's reputation as a hard market to crack, pressure from the U.S. and other nations was having a payoff. It appeared that access to the Japanese market by foreigners would increase. Oregon, with its Pacific Rim location and already significant trade activity with Japan, was expected to benefit. It now appears, however, that domestic political changes and a Japanese push for increased conservatism on trade issues could affect Oregon's export potential there.

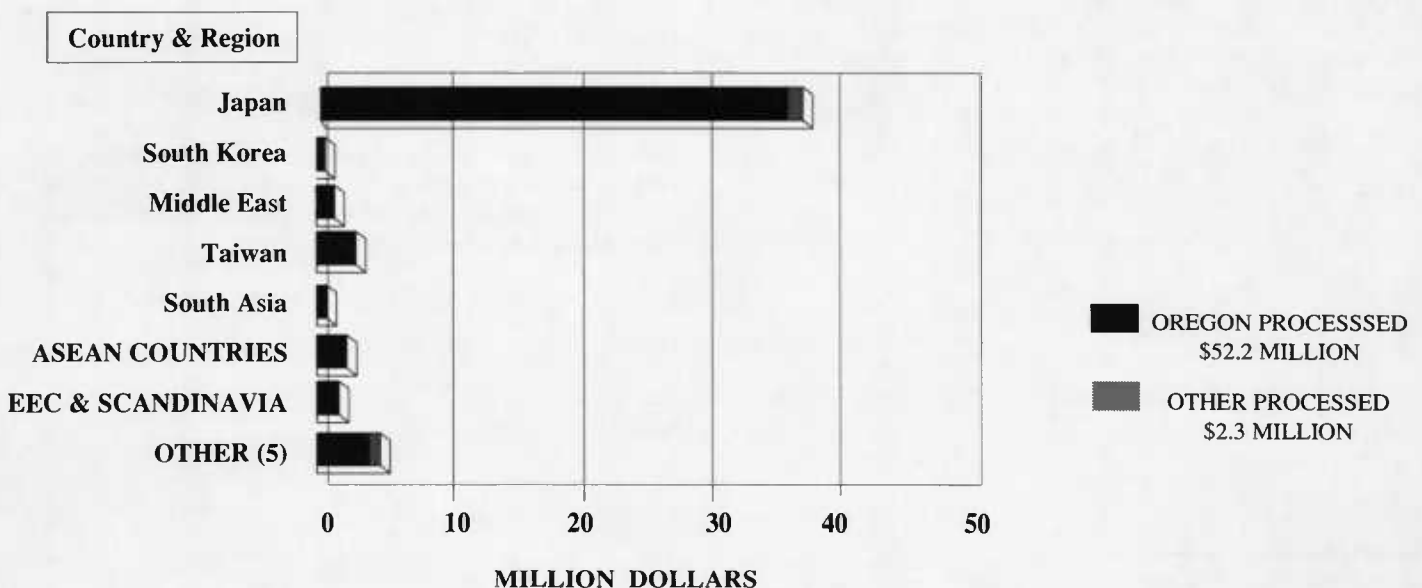
The Japanese historically have been major consumers of commodities produced in Oregon. Among Japan's imports are wheat, wood chips, lumber and wood products, potatoes, fish

products, and processed vegetables. Over a third of the shipments exported from the Port of Portland are bound for Japan.

Japan is also a major supplier of a wide range of products imported to and through Oregon, including automobiles, steel, and electronics products. Japanese interests are now well entrenched in the state and in the Pacific Northwest. Japanese investors like Mitsui, Marubeni and Mitsubishi increasingly find opportunities to purchase or participate in ownership of Pacific Northwest enterprises.

What happens in Japan, politically and economically, makes a difference in Oregon. Keeping up with domestic Japanese politics may not have seemed important at one time, but the policies of the ruling party have led to increased trade opportunities for Oregon during recent years. This summer's political losses could have significant implications for future trade prospects.

Destination of processed food exported by Oregon firms, 1988*



Source: *Journal of Commerce*

*Port of Portland figures exclude truck and rail shipments, therefore exports to Canada are not reflected here.

Political uncertainty in Japan

For 35 years Japan has been ruled by the Liberal Democratic Party (LDP). The LDP held power because it sensed what the citizens of Japan wanted and provided it, and because opposition was fragmented among a number of smaller parties. Initially concerned with domestic affairs and economic development, the LDP focused its attention inward. But more recently the LDP has become the party of internationalists. Under the LDP Japan's government leaders have been willing to negotiate with the United States and other trading partners to provide freer and more open access to the Japanese market. Certainly progress has been slow, but progress has been made.

The LDP committed itself to a variety of internal and external policy reforms which were expected to give rise to a more open economy and freer international trade. In 1988, at the urging of the U.S., the Japanese government agreed to a phased-in liberalization of beef and citrus imports. Oregon hoped to be among those states benefiting from beef exports to Japan. Many in Japan, however, regarded this as too radical a change for a country with the reputation as the most protectionist in the world. In July, 1989 Japan held an

election for the Upper House of the Parliament. Minority parties, particularly the Japanese Socialist Party (JSP), had been gaining strength as the LDP saw its strength wane and on July 23 the LDP suffered a severe loss. While the Upper House is the weaker of the two houses of the Japanese Diet (Parliament), the election was symbolic. Most analysts contend that four factors accounted for the LDP's political defeat.

First, the "recruit money for influence" scandal had badly damaged the LDP's credibility with many middle class voters. Second, then Prime Minister Uno was caught in a sex scandal. Third, ignoring public opinion, the LDP imposed a sales tax which created hostility, particularly among Japan's middle class. And finally, many Japanese, particularly those in rural areas who had been strong supporters of the LDP from its inception, opposed the LDP's acquiescence to U.S. pressure for trade liberalization. As Tokyo Business Today magazine noted in its September 1989 issue, "revolt among Japanese farmers against [trade] liberalization of farm products drastically eroded support for the LDP." The message was sent both to the LDP and to the other parties in the Japanese political system, that a freer and more open economy was not necessarily the desire of the voters.

1988 Agri-Exports by Oregon Firms to Japan Summary by Commodity

Commodity	Export Volume (lbs)	Estimated Export Value	Oregon Grown
Field Crops	9,078,647,651	\$ 566,507,430	\$ 116,766,966
Grass Seed	12,891,610	7,688,553	7,688,553
Vegetable Seed	2,724,662	2,357,248	2,357,248
Processed Vegetable	83,558,568	27,727,695	27,330,207
Processed Foodstuff	12,513,730	2,646,522	2,646,522
Processed Fruit	4,446,852	2,709,206	945,487
Processed Berries	4,110,459	5,892,071	5,892,071
Fresh Fruit	141,120	102,735	-0-
Fresh Vegetables	8,934,541	1,015,801	1,015,801
Meat & Hides	917,342	1,254,444	265,315
Seafood Products	2,333,097	2,214,268	2,214,268
Nuts	806,411	599,721	7,389
Beans	40,724	20,240	-0-
Miscellaneous	1,168,430,630	50,624,172	290,521
GRAND TOTAL	10,380,497,397	\$671,360,105	\$ 167,420,347

Source: *Oregon Agricultural Exports to the World, 1988.*

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1988 Agri-Exports by Oregon Firms

Oregon Exporters to Japan*

Agrex	\$ 543,088,637
Cito	130,171,406
Continental Grain Export	647,727,782
Elders Grain	122,296,885
Garnac Grain	122,294,681
Kanematsu Gosho	881,106,354
Louis Dreyfus	1,335,550,009
Marubeni America	460,431,201
Mitsubishi International	798,625,113
Nichimen America	871,736,895
Panamax Cosmos	292,098,922
Peavey Grain Co.	212,038,813
Sumitomo of America	300,041,425
Toyomenka America	395,061,176
Yuasa Trading	184,089,471

*1988 Oregon Exporters of 100,000,000 or more

Source: *Oregon Agricultural Exports to the World, 1988.*

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Implications for Oregon's economy

The election in Japan may seem like a distant political event, yet it promises to have serious implications for the U.S. in general and for states like Oregon specifically. Producers of agricultural products, lumber and timber products, and fisheries products from Oregon had looked forward to more open access to one of the largest, wealthiest markets in the world. The defeat of the LDP in the summer of 1989 will almost certainly slow the process for trade liberalization. To prevent more farmers from abandoning the LDP, party leaders have quickly backed away from further moves to open agricultural markets.

Some observers in Japan believe the LDP may actually reverse free trade initiatives as political leaders attempt to find ways to sidetrack its commitment to liberalization moves already made. The opposition JSP, for example, continues to campaign on a platform which goes even further to include new protectionist measures for food and agricultural products.

Even if the LDP is able to hold a majority in the Lower House of Parliament and regain its strength, an important signal has been sent to its leadership. The internationalists within the party have lost credibility and the traditionalists have gained strength. This is clearly not good news for Oregon's export oriented industry. While it is unlikely that Oregon's sales to Japan will actually decline as a result of the LDP's problems, prospects for market growth have been damaged. Suppliers of vegetables and fruits, wines, grass seeds, and other high-value agricultural products will likely be disappointed to find dimmer prospects for increasing trade.

Come what may on the domestic Japanese political front, bilateral trade negotiations between the United States and Japan will unquestionably continue. Both countries are participating in the negotiations for the Eighth Round of General Agreement on Tariffs and Trade and are bound together by a web of mutual economic and security interests. Further, Japan's stake in a healthy U.S. economy has increased significantly as Japanese investors have purchased billions of dollars of U.S. assets in recent years. Japanese investment in the United States totalled more than \$54 billion at the end of 1988, having doubled since 1986. Japanese firms are now involved in exporting grains and wood products from Oregon. Japanese investment in electronics manufacturing and financial services is on the rise. Yet, politics on both sides of the Pacific may slow the pace of reshaping trade agreements, and therefore bear watching. Neither country can afford a major economic conflict.

The U.S.-Canadian Trade Agreement

Increased Oregon exports or import competition?

Since Canada is our nearest international neighbor, and the number one U.S. trading partner, it may seem more logical to follow political and economic events there than in many other countries. Too often, however, Canada gets taken for granted by the U.S. Because political and economic relations are not generally contentious we may fail to study trade relations with Canada sufficiently to fully understand and anticipate implications for the U.S. and for our state.

In recent years Oregon has exported annually about \$390 million worth of products to Canada. These include timber, trucks and truck parts, plywood, computers, and processed vegetable products. At the same time about \$421 million worth of Canadian products have been imported annually. Imports from Canada include lumber, wood pulp, petroleum and coal, fertilizer, and other chemicals.

Because Canada relies heavily on imports of a number of food products which are now produced or can be produced

in Oregon, provisions of the recently negotiated U.S.- Canadian Free Trade Agreement (FTA) could create sufficient export growth to erase the Oregon-Canada trade deficit.

In January of 1989 the United States and Canada completed long and difficult negotiations on what has come to be known as the U.S.-Canadian Free Trade Agreement (FTA). Not a truly free trade agreement, but rather a freer one, the FTA lowers barriers on a wide range of products and commodities between the two countries, enhances opportunities for bilateral investments, and establishes a new set of rules for dealing with trade disputes. Over a ten year period, the FTA provides for the complete removal of tariffs.

Although extremely controversial and widely discussed in Canada, the FTA has gone virtually unnoticed in many parts of the U.S. Some see it as more politically symbolic than economically consequential. The FTA may prove economically meaningful for both Oregon and the Pacific Northwest, however. Provisions improve access to the Canadian market for a number of Oregon industries and producers. For example, producers of fresh and processed fruits and vegetables, wines, and a number of other food products will realize a decline of between five and fifteen percent in tariffs on their products in the immediate future. This should give them a decided edge in serving the 6.7 million consumers of western Canada.

For progressive producers, this may be the appropriate time to enter export marketing. The Canadian market, now more readily available, is among the easiest to serve because the U.S. and Canada share many common customs, a common language in most areas, and are geographically proximate.

But just as Oregon producers gain access to and opportunities in Canadian markets, so Canadian producers gain access to ours. In the Pacific Northwest and in Oregon, some producers may well feel intensified competition from Canadians in the domestic market. Oregon's pork producers are already beginning to notice increased competition due to imports from Canada.

The FTA left a number of barriers untouched. Trade in wood products, for instance, is not specifically addressed under the agreement. The expectation is that future negotiations will lead to some arrangement for wood products trade between the two countries as well as for dairy products. Although implementation of the FTA is already being noticed by a number of participants in Oregon's economy, the results of future negotiations create uncertainty and apprehension on the part of producers and consumers and merit close attention.

1987 Oregon Exports to Canada, Summary by Commodity

Commodity	Estimated Export Value
Field Crops	\$ 1,896,000
Grass Seed	-0-
Vegetable Seed	-0-
Processed Vegetable	5,266,000
Processed Foodstuff	6,359,000
Processed Fruit	6,201,000
Processed Berries	-0-
Fresh Fruit	7,264,000
Fresh Vegetables	7,489,000
Meat & Hides	3,528,000
Seafood Products	6,069,000
Nuts	2,095,000
Beans	-0-
Miscellaneous	167,000
Grand Total	\$ 46,334,000

Note: 58% of these imports go to the Pacific provinces while 8% go to the prairie provinces, 23% to Ontario, and 11% to the eastern provinces.

Source: *Oregon Agricultural Exports to the World, 1988*.

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Living in a Global Economy

Events in remote and distant parts of the world often influence life in Oregon, as the examples cited in this paper serve to demonstrate. The internationalization of Oregon's economy means that everyone needs to be continually aware of events and activities around the world. While we may not always be able to adequately anticipate or influence these events, we can become better at reacting to them. As global citizens it's important that we understand the complex set of relations which guide and influence this state's economy.

Questions for Discussion

1. What are some of the opportunities created by being linked to international markets? What are some of the challenges/adjustments posed by involvement in a global economy? Overall, do you think the benefits are likely to outweigh the costs?
2. What fears/concerns might Oregonians have that could cause them to resist more open access to their domestic markets? Might Japanese citizens have some of these same fears/concerns? What are some of the benefits the Japanese might receive from increased imports? What are some of the ways Oregonians benefit from imports from abroad?
3. What Oregon products might be susceptible to international import competition? from Japan? from Canada? What Oregon products might have the most potential for increased access to international markets? in Japan? in Canada? elsewhere?
4. If U.S. - Iranian diplomatic relations improve and trade relations are eventually restored how might the Oregon economy benefit? Would wheat and agricultural producers be the only potential beneficiaries of increased international sales? How else might rural and urban communities benefit?
5. Some people argue that economic and trade ties with other countries should continue regardless of moral judgments about another country's ambitions. Others feel that economic ties should be cut or resumed as an expression of our country's ethical views. What is your opinion on this issue in general? In the case of Iran?
6. Do Oregonians really have a choice whether or not to participate in a global economy? If a global economy is a reality, how can Oregonians prepare themselves to better understand international markets which affect our state? How can we as Oregonians influence international markets?



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