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A CASE FOR FREE TRADE

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Shortly after World War II, the nations of the world scored a remarkable achievement. Mindful of the damaging trade wars of the 1930s, they created a multilateral free trade system that brought unparalleled economic prosperity. That trading system contributed importantly to three decades of growth.

The recent world recession and sluggish recoveries in some countries now have raised protectionist sentiments to their strongest level since the 1930s. Around the globe, we are seeing nation after nation yield to internal pressure to limit access to its market. As a result, some analysts estimate that half of all world trade is subject to protectionist restrictions. The new barriers are mainly non-tariff restrictions which cover more than 20 percent of all manufacturing trade. Ten years ago that figure stood at 13 percent. Some fear the "beggar-thy-neighbor" policies of the Great Depression era may be back upon us.

The natural response to protectionism is protectionism, and there are those in the United States who want to reciprocate. More than 100 pieces of protectionist legislation -- all opposed by the Reagan administration -- were pending before the U.S. Congress when it adjourned in October 1984. This desire to act in kind is understandable. Our country's restraint is commendable.

Our experience 50 years ago, however, must not be forgotten. The economic downturn of the 1930s might have been far less severe had the United States and other nations acted responsibly. We were the world's largest creditor nation. We reacted to the recession by raising tariffs, devaluing our currency and halting overseas lending. When foreign debtors

defaulted on loans they could not refinance, it worsened the domestic banking crises. A global money shortage led to further deflation and a deeper depression. Had we kept our markets open, continued to lend and maintained existing rates, conditions might have been less traumatic.

Taking a similar isolationist stance today would be equally disastrous. Increased protectionism in the United States would stir greater antitrade sentiments abroad. That would undermine the General Agreement on Tariffs and Trade (GATT) and destroy the world trading system as we know it.

All the nations' economies are far more dependent upon one another today than they were during the 1930s. If economic isolationism were ever a legitimate choice, it is far less of one now. No country can solve its economic problems independently. Protectionism won't make the problems of adjusting to fundamental shifts in an economy any easier. It won't make noncompetitive industries competitive. It won't bring down costs. It won't increase employment. It will raise costs, lose jobs, and allow uncompetitive industrial sectors to continue to stagnate. It will divert resources from efficient industries to inefficient ones.

As a result, protectionist policies will lower our free-trade countries' standard of living. When workers in one industry are protected, workers in other industries can suffer. This happens when countries hurt by measures protecting one industry retaliate by cutting imports of some other industry. This means that workers in a protected industry can effectively displace or reduce the amount of work for workers in an unprotected industry.

Workers are also displaced as other nations are forced to buy less because their export earnings drop. Jobs will be lost even without retaliation. Protectionism raises inflation and slows economic growth.

Despite the Reagan administration's record on free trade, some consider it suspect and more protectionist than it admits. That's wrong.

The administration has taken a position on a number of issues in which it based its decision on the greater national interest. Voluntary auto restraints are a case in point.

First, at the time we negotiated the voluntary restraint agreements, there were 20 bills in the legislative hopper for import quotas on Japanese vehicles. Those quotas would have been impossible to remove once enacted. The voluntary restraint agreement can be more easily removed and was a far more preferable alternative.

Second, President Reagan rejected the U.S. International Trade Commission's recommendation on quotas on imported steel for the same reason. It would have marked a turn toward protectionism. It would have

resulted in retaliation against our exports, cost jobs, raised prices, and eroded our ability to compete at home. Rather than adopt a harmful policy, the administration decided to deal with the root causes of the import surges -- diversion of steel to the United States and unfair trading practices.

The administration was also successful in getting protectionist provisions struck from the omnibus trade bill that has just passed Congress.

We have pledged to help U.S. industry become more competitive by providing it with a sound and healthy economy in which to operate. We are well on the way toward fulfilling that promise.

The big job is up to industry itself. Only it can sharpen management, raise productivity and produce quality products that are competitive in world markets.

Free trade promotes a higher standard of living around the world. From 1960 to 1981, world trade increased more than 15 times, helping push up the world's gross national product -- an indicator of the wealth of nations -- by 141 percent. The United States benefited from this growth. Our merchandise exports and imports grew rapidly during the last decade, until the unexpected drop in world trade in 1982. Exports rose from US\$44,000 million in 1971 to US\$234,000 million in 1981, and imports climbed from US\$49,000 million to US\$273,000 million.

Ours was the most open economy in the world during this period, and our employment grew by 26 percent -- 21 million new jobs. By contrast, the European Economic Community had only a 2.4-percent increase in employment -- 2.3 million jobs -- and employment in Japan rose only 4 million or 7.7 percent. An open trading system alone may not account for all of the jobs created, but it is an integral part of the free-market philosophy which has made us so successful.

It would be a major mistake for the United States to adopt the protectionist policies of other countries. We must continue to support the principles of free trade while strictly enforcing all existing trade agreements and domestic laws. We should work to expand the GATT's coverage to more international trade issues.

The United States and its trading partners should remember that the way to achieve a higher standard of living is through greater efficiency, not strangulation of trade. We must let the free market work and decrease the government's role in planning economic growth.

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