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**Committee for Economic Development**  
*The Best of Business Thinking*

**A Statement From the Committee for Economic Development  
In Support of International Trade: Business Leaders Speak Out  
October 2009**

## **In Support of International Trade: Business Leaders Speak Out (Summary)**

The Committee for Economic Development (CED) has been a consistent voice in support of U.S. leadership for an open global trade regime. This policy update reiterates a fundamental truth: *An open and vibrant trading system is vital to the economic well being of all Americans.* During this period of economic distress and heightened sensitivity to the effects of economic policy, it is especially important for the United States to reaffirm its commitment to free and open trade. Historically, business leadership has played a key role in helping the public and its elected representatives to recognize the importance of open trade to our collective prosperity.

Recent CED policy statements on trade have called for U.S. leadership in international negotiations to reach the goals of freer global trade; a comprehensive domestic agenda to develop a national constituency that understands and supports a strong and open global trading system; and policies that all major contributors to the persistent global trade imbalances could take to sustain a global economic recovery. Specifically,

- U.S. policy should lead a revitalization of the Doha Round of trade negotiations by committing to the goals of de-linking all agricultural subsidies from prices and production levels while providing open access to our markets for all developing country agriculture exports, eliminating quotes and tariffs on manufactured goods, and removing global barriers on services trade.
- The United States should work toward national consensus on trade by establishing an aggressive and effective adjustment policy that helps workers in transition. CED supports a wage-insurance program to protect workers from income losses associated with job change.
- The United States should work toward a multilateral cooperative approach to the necessary rebalancing of global trade and financial flows. The United States must avoid a protectionist response in defending domestic jobs; it should increase national saving by reducing its “on-budget” fiscal deficit as much and as quickly as practicable. Europe and Japan should pursue structural and macroeconomic policies to strengthen domestic demand. China should expand public consumption in health care, education, public pensions, and associated basic social programs. Financial reforms to improve the intermediation of private saving would raise private consumption and improve the efficiency of private investment. In the longer run, China should move to a market-determined exchange rate.

## In Support of International Trade: Business Leaders Speak Out

Some truths bear repeating:

- “The United States has a major interest in the expansion of world commerce. We are a powerful industrial nation. We need vast quantities of goods and services of many kinds. We have a large margin of efficient production capacity which can be put to work making things for international trade. We can exchange these things with the people of other countries who, themselves, make other things available for trade—other things better or cheaper or different than we can or want to make.”<sup>i</sup>
- “[T]he significant long-term benefits of open trade and ‘outsourcing’ to the American economy have been widely demonstrated. Trade gives our economy lower-cost goods and gives our companies the resources to be competitive. Trade is a substantial part of the exceptional dynamism that creates jobs and growth in America. This is no time to lose our resolve to enhance U.S. prosperity through trade.”<sup>ii</sup>

The first of these two statements was made by the Committee for Economic Development in 1945, the second in 2005. For those like us who see open trade as overwhelmingly in the nation’s interest, the need to review the logic and experience of trade, to restate the position again and again over 60 years, is to defend the obvious.

And yet, with every economic downturn, the need arises again. It is easy to point to a single job lost to apparent competition from imports. It is harder to point to export jobs maintained, or to the jobs that exports indirectly support, or to the lower-priced goods that hard-pressed consumers can afford because of imports. It is harder still to explain that protectionism at home inevitably will breed further protectionism abroad.

Now, in 2009, as we survey an economic landscape wracked by global recession and financial crisis of historic proportions, we find it necessary to reiterate: *An open and vibrant trading system is vital to the economic well being of all Americans.*

In the recent past, the “trade issue” has been mostly a debate over the relative benefits and costs of bilateral and multilateral trade agreements such as the North American Free Trade Agreement (NAFTA) and the negotiating rounds of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT). But now, the threats to open trade arising from the 2007-2009 recession are manifest in data showing declining global trade, in policies pursued by national governments intent on stimulating and protecting domestic economic activity, and in the numerous news reports of incidental activities that have the cumulative effect of dampening international commerce.

The World Trade Organization projects a global decline in trade of about 9 percent in volume terms in 2009.<sup>iii</sup> The World Bank reported that 17 of the G-20 countries had adopted measures to protect domestic producers from foreign competition.<sup>iv</sup> Measures such as a “Buy American” provision in US law are replicated elsewhere as “Buy British,”

“Buy French,” or “Buy Chinese.” The European Union, among other actions, is considering a directive that would place heavy regulatory burdens on foreign financial managers, thereby favoring European financial managers.<sup>v</sup>

Certainly one expects trade activity to taper off as total economic activity declines in a global recession. But trade monitors like the WTO point out that protectionist measures are on the rise, and the reduction in trade volume has been out of proportion with even the oversized economic downturn. The lack of will on the part of governments of leading trading nations to make economically smart rather than politically popular decisions has amplified the trade reduction caused by the economic slowdown.

It is not that political leaders do not understand the issue. The following is from the official communiqué issued at the close of the G20 London Summit:

World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras.<sup>vi</sup>

To implement this pledge G-20 leaders agreed to:

- refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports;
- minimize any negative impact on trade and investment of domestic policy actions including fiscal policy and action in support of the financial sector;
- not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries;
- notify promptly the WTO of any such measures and call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on adherence to these undertakings on a quarterly basis;
- take whatever steps possible to promote and facilitate trade and investment;
- ensure availability of at least \$250 billion over the next two years to support trade finance through export credit and investment agencies and through the Multilateral Development Banks; and
- remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed.

The evidence thus far is that these pledges, however sincere when they were made, have for the most part not been observed in practice.

### **What Can the United States Do?**

Recent CED policy statements on trade, in 2003, 2005, and 2007, have called for:

- a series of recommendations for U.S. leadership in international negotiations to reach the goals of freer global trade;<sup>vii</sup>
- a comprehensive agenda to develop a national constituency that understands and supports a strong and open global trading system;<sup>viii</sup> and
- a set of practical policy steps that could be taken by all major contributors to the persistent trade imbalances in the world economy, which were an underlying cause of the recent recession and continue to be an impediment to sustained global economic growth.<sup>ix</sup>

### **A Call for Bold Leadership**

The Doha Round of global trade negotiations is moribund. A successful end to these talks is crucial for America's future economic growth, its international relationships, and its security. The Committee for Economic Development has called on the President to take decisive and immediate action to break the negotiating stalemate by launching an initiative to eliminate trade barriers – beginning with agriculture – at home, and challenging others to do the same abroad.

These steps must be taken not only to enhance the outlook for U.S. economic growth, but also to provide an important avenue by which developing countries can pull themselves out of poverty—a result strongly in the interests of the United States. Trade spurs economic growth and encourages governments to commit to needed domestic reforms. It helps to integrate developing countries, both economically and politically, into the global system and gives them a stronger stake in that system. It reduces the risk of political collapse, which, as seen in places such as Afghanistan and Somalia, can have devastating effects on our own security.

The role of the United States in the world—after September 11, the wars in Afghanistan and Iraq, the change in Administration, and the recent economic and financial crisis—is under intense scrutiny. Other nations watch to see if the United States will continue to embrace the core economic principles and institutions that it has supported over the last half century: global economic integration through open trade and investment, supported by the World Bank, the International Monetary Fund, the World Trade Organization, and other multilateral organizations.

The Doha Development Round provides a critical opportunity to show the world that the United States will lead all nations in acknowledging and acting on our responsibilities. But the lack of decisive progress in these negotiations has sapped their energy and unduly lowered expectations of success. To reinvigorate these talks, the United States should begin by seizing the initiative. This can best be accomplished by coming to the negotiating table with an expressed willingness to eliminate existing trade restrictions, particularly in the area of agriculture. Doing so could galvanize pro-trade constituencies around the world and provide the leadership example for our major trading partners in both advanced and developing economies to reciprocate. We recognize that political realities and temporary hardships will make it difficult for government leaders

everywhere to take these bold steps. But the challenge of leadership is to rise above traditional ways of doing things. We appreciate that U.S. officials may be reluctant to lead forcefully in the absence of clear indication that other countries will follow. But the potential gains are well worth the risks, and the option to revert to a more traditional, slower, and less productive negotiating strategy will always remain.

We also have recommended that U.S. trade policy commit to a series of specific detailed steps, including:

- De-linking all agricultural subsidies from prices and production levels and providing open access to our markets for all developing country agriculture exports. We can no longer tolerate farm policies that encourage overproduction at the public's expense while impoverishing the developing world.
- Indicating strongly a desire to eliminate all tariffs and non-tariff barriers (including quotas) in manufactured goods, without exception, by a date certain, and challenging other countries to do the same. This includes textiles, apparel, and other traditionally protected sectors.
- Taking the lead toward the elimination of all barriers to cross-border trade in services. Service exports are the fastest growing category of U.S. export trade and the fastest growing sector in many developing countries.
- Committing ourselves and calling on others to reduce reliance on anti-dumping and countervailing duty remedies and pledging to tighten procedures and standards for such remedies.
- Reaffirming the importance of enforceable commitments and adherence to well-defined trade rules under WTO while seeking to develop procedures that would reduce confrontation and increase the percentage of mediated or negotiated—"out-of-court"—settlements of trade disputes.
- Developing and championing adjustment programs throughout U.S. economic sectors dislocated by trade, encouraging workers to shift to new employment without resorting to protection as an "interim" or "transitional" policy.

### **Getting to "Yes" on Trade**

Open trade should, indeed must, be a cornerstone of America's economic policy. It builds our economy, enhances our security, and supports American diplomacy around the world. We need to forge a national consensus to support this goal, and adjustment policy must be a vital part of how we get to "yes" on trade. Many sound analyses have shown that trade is not the cause of the economy's slow pace of job creation. Nevertheless, the fear of job loss is very real and makes it difficult for workers to embrace more open trade.

Getting to "yes" on trade, therefore, means establishing an aggressive and effective adjustment policy that helps workers in transition. CED has expressed support for a wage-insurance program that would protect workers from income losses associated with job change, as well as help those workers with job search, health coverage, and training. We recognize that there are some workers for whom job loss may present extremely difficult circumstances, in part because they may lack the skills or the training to reenter the workforce. Adjustment policies must recognize the legitimacy of their needs, eschew a "one size fits all" approach, and make every possible effort to encourage and facilitate their reemployment.

Previous efforts to forge this kind of adjustment policy have been marked by half-heartedness and fragmentation. Differing political agendas through the years have created many incremental programs. The aggregate cost of numerous adjustment and training programs is already large; the benefits of rationalizing and integrating these programs, and of eliminating various trade-distorting subsidy programs, would allow us readily to afford the cost of addressing more effectively the plight of displaced workers. We should aspire to a national policy of economic adjustment, unlike the current Trade Adjustment Assistance (TAA) system, that would be available to all workers experiencing involuntary unemployment for reasons other than their own conduct. Such a program would emphasize, whenever possible, getting back to work.

CED believes that business organizations such as our own must reach out to labor and to other groups to initiate the leadership to make the changes needed to form a consensus around trade policy, of which trade adjustment must be a central part. Only such a collective effort can address the prevailing misunderstanding and mistrust.

### **Addressing Global Imbalances**

Since 1991 the global economy has become increasingly "imbalanced," as the trade deficit in the United States and trade surpluses in many foreign countries grew rapidly. In 2005 and 2006 the U.S. current account deficit (which includes international investment income flows and transfer payments as well as trade in goods and services) reached an unprecedented 6.1 percent of GDP. Due to the global recession and the attendant collapse in world trade, by the second quarter of 2009 it had receded to 2.8 percent of GDP.<sup>x</sup>

The counterpart of these U.S. deficits has been large current account surpluses in the oil-exporting countries, Japan, China, and certain other Asian and European economies, which have accumulated extremely large private and public holdings of dollar assets. As a consequence, U.S. net international debt rose to 16 percent of GDP in 2006. By 2008 it had risen further to 24 percent.

These global imbalances have resulted from several factors that developed over the past several years, including declining saving in the United States and high saving in the surplus countries; an increase in the demand for dollar assets due to globalization; high energy prices; exchange rate intervention by China and other countries pursuing export-

led growth; and greater declines in the prices of U.S.-held foreign stocks relative to declines in the prices of foreign-held U.S. stocks. Some of these long-term factors have been altered by the 2008 financial crisis and accompanying recession, such as the recent rise in the U.S. household savings rate, but others continue to represent persistent structural problems.

These imbalances provided the large capital inflows that spurred the rise in U.S. residential mortgages and the easy flow of credit to sub-prime borrowers, which are at the base of the financial crisis; and most still exist today. Correspondingly, CED's recommendations for addressing global imbalances, which were made in the hope of reducing the risk of a financial and economic crisis such as has occurred, remain extremely relevant in the current economic environment. Full global economic recovery will not take place without a more balanced set of national policies among the major economic actors.

As a general matter, all economies should contribute to global adjustment, which will require both changes in relative prices (exchange rates) and a rebalancing of global demand. The sharp drop in international trade that has accompanied the financial crisis and global recession has made it even more imperative for those countries with serious imbalances to follow the recommendations in CED's 2007 study, "Reducing Global Imbalances." The large surplus countries, such as China, Japan and Germany, must strengthen domestic demand. At the same time, the United States must maintain and even improve upon the higher household savings rate that has been recently achieved in response to the financial crisis and take steps to reduce substantially the unacceptably high future federal budget deficits shown in current projections.

A multilateral cooperative approach is most likely to be successful in securing agreements to undertake the needed adjustments in demand and exchange rates and the political "buy in" necessary to implement them properly. While the global recession is causing widespread losses in output, incomes and employment, it has indeed been a "wake-up" call for the surplus countries, which now realize that they cannot depend upon increasing exports to the United States for their economic growth—or even for their recovery from the current economic downturn. The United States must do its part not to allow domestic conditions that contribute to the resumption of large current account deficits once financial markets heal and the global economy recovers.

In particular, The United States, as the preeminent deficit country, must avoid a protectionist response in defending its domestic jobs. Instead, it should increase national saving by reducing its "on-budget" fiscal deficit, now further swollen by the economic and financial calamity, as much and as quickly as practicable. This fiscal consolidation will require comprehensive expenditure reductions as well as increased revenues, which might best be pursued through CED's recommended tax reforms or energy taxes. Private saving also should be increased through tax reform and targeted saving initiatives such as the maximum possible adoption of "automatic" 401(k) plans by employers.



Europe should pursue policies that continue to strengthen domestic demand, including structural reforms of product and labor market policies and supportive monetary policy. Authorities should refrain from intervention to prevent appreciation of the euro against the dollar.

Japan also should pursue structural reforms and a careful balancing of fiscal and monetary normalization that will support growth. Japan should continue to refrain from intervention or public statements that impede the yen appreciation that is needed for global adjustment.

China should expand public consumption in health care, education, public pensions, and associated basic social programs. Financial reforms to improve the intermediation of private saving would raise private consumption and improve the efficiency of private investment. The renminbi (RMB) should be allowed to strengthen in the short term, and in the longer term China should liberalize its capital account and move to a market-determined exchange rate. China's ambitions to see the RMB as a reserve currency will only be realized when the RMB trades freely and there is a significant international RMB bond market. With regard to the latter, the announced plan of the Chinese government to float its first international RMB bond issue is a welcome development.

The petroleum exporters should continue to increase public and private investment programs to raise domestic demand. Gulf Cooperation Council countries should consider following Kuwait's example in moving from a rigid dollar peg to a more diversified currency basket.

Smaller surplus countries also have a role to play. Some have accumulated very large exchange reserves, and in the aggregate they can make a significant contribution to adjustment. They should resist the temptation to be "free riders" as larger countries adjust. Instead, they should allow exchange rate adjustment and expand domestic demand as their individual circumstances permit.

The International Monetary Fund (IMF) can and should be more proactive in catalyzing governments to consult on and implement adjustment policies. The multilateral consultations organized by the IMF in 2006-2007 should be institutionalized in an international consultative group to be organized as circumstances require.

## **Conclusion**

The international trading system was under tremendous strain before the onset of the recent recession. The economic and political consequences of the recession have only added to the pressures on governments to engage in policies that give the appearance of generating wholly domestic benefits. Such appearances are deceiving. Emulation and retaliation by governments that experience the negative consequences of "beggar-thy-neighbor" policies ensure that protectionism and discrimination against foreign entities are self-defeating at best. And such policies have the potential to create great damage—

the protectionist Smoot-Hawley Tariff Act of 1930 is credited with deepening and prolonging the Great Depression.

The United States has been the leader of an international trade regime, which since the end of World War II has been a cornerstone of economic prosperity. Business leadership must play an important role in helping the public and their representatives in government understand that an open and vibrant trading system is vital to the economic well being of all Americans.

## ENDNOTES

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- <sup>i</sup> Committee for Economic Development, *International Trade, Foreign Investment and Domestic Employment*, June 1945.
- <sup>ii</sup> Committee for Economic Development, *Making Trade Work: Straight Talk on Jobs, Trade, and Adjustment*, March 2005.
- <sup>iii</sup> World Trade Organization, Press Release: “WTO sees 9% global trade decline in 2009 as recession strikes,” March 24, 2009.
- <sup>iv</sup> Elisa Gamberoni and Richard Newfarmer, “Trade Protection: Incipient but Worrisome Trends,” The World Bank, Trade Notes, number 37, March 2, 2009
- <sup>v</sup> NYT, “The New Face of Protectionism,” September 2, 2009. Financial Times, “Chiefs speak out against 'disastrous' EU regulatory proposals for alternative investment,” June 18 2009.
- <sup>vi</sup> Official communiqué issued at the close of the G20 London Summit.
- <sup>vii</sup> Committee for Economic Development, *Promoting U.S. Economic Growth and Security Through Expanding World Trade: A Call for Bold American Leadership*, September 2003.
- <sup>viii</sup> CED, *Making Trade Work*
- <sup>ix</sup> Committee for Economic Development, *Reducing Risks from Global Imbalances*, 2007
- <sup>x</sup> [http://www.bea.gov/newsreleases/international/transactions/trans\\_highlights.pdf](http://www.bea.gov/newsreleases/international/transactions/trans_highlights.pdf)