

Chapter 2

Trading for Prosperity

The Honorable Elaine L. Chao

History has proven that trade freedom is the best economic strategy for all of the world's peoples.

History has also shown that we are prone to ignore history.

Since 1979, the value of world exports has risen by an average of 7.1 percent annually. During that same period, world income has skyrocketed. Gross domestic product (GDP) for the world as a whole, measured in constant 2000 U.S. dollars, has risen from \$17.5 trillion in 1979 to \$40.3 trillion in 2008. Even on a per capita basis, GDP growth has been impressive, jumping from \$4,002 to \$6,023.

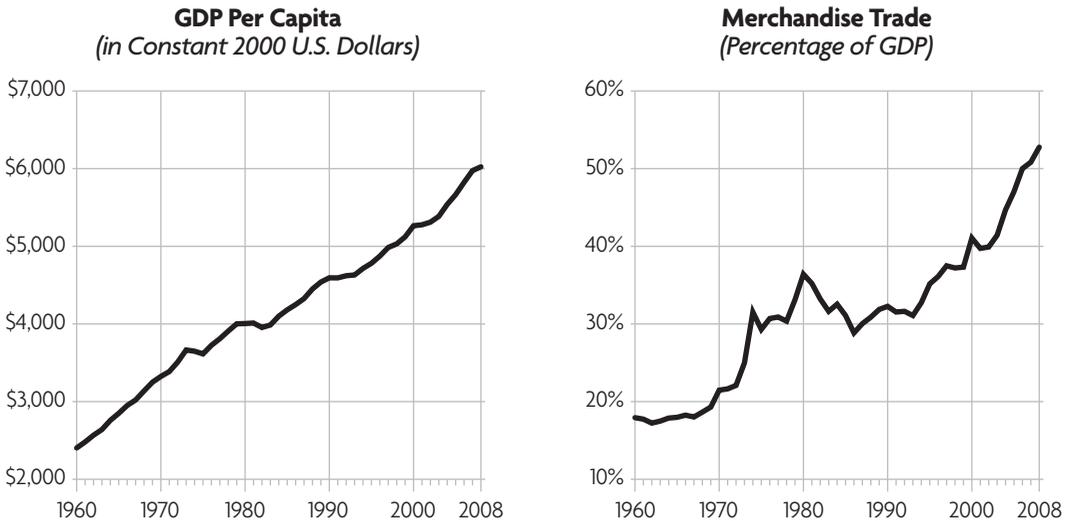
The relationship between trade and economic growth is clear, both in theory and in practice. No single nation has the natural resources, infrastructure, and human capital in sufficient quantity and quality to realize the standard of living to which developed nations have become accustomed and to which developing nations aspire. And so we trade.

SPREADING PROSPERITY TO ALL

The major economic benefits of free trade derive from the differences among trading partners, which allow any country a chance to compete in the global market according to its fundamental economic strengths. Low wage costs, access to cheap capital, a highly skilled workforce, and other fundamental variables all play a role in determining what comparative advantage one country has over another in the global marketplace.

When individuals specialize and trade, the economic advantages of the resulting increased skills and improved allocation of resources are enormous. The baker bakes bread, and the tailor sews shirts; their products are exchanged, and both are better fed and better clothed. In a modern economy, specialization extends much further, both within a nation and across countries. The process of producing bread involves dozens or hundreds of specialists in various tasks related to agriculture, construction, ener-

Global Trade and World GDP Per Capita



Source: World Bank, World Development Indicators Online, at <http://publications.worldbank.org/WDI> (October 19, 2009).

Chart 1  heritage.org

gy, accounting, marketing, transportation, and myriad other skills. The trading process, along with technological advancement that is itself largely spurred by the dynamics of trade, is at the root of all productivity gains—truly the basis for the wealth of nations.

Few would doubt the relationship between increased trade flows and the rapid worldwide economic growth at the end of the 20th century. This growth in trade did not come about by accident; it was the result of visionary political leadership in the United States and other major economies that sustained a 50-year commitment to lowering barriers that separated the peoples of the world, and integrating communities and nations in a global marketplace.

Trade is as old as human civilization. Trade allows individuals and nations to prosper from natural resources, ingenuity, and initiative. Trade increases the standard of living of all nations, rich and poor, developed and developing, and is an added incentive for us to seek a stable world that is safe from upheaval and strife.

From the ruins of World War II, there emerged the basis for the modern international

trading system. With the hard-learned lessons of the Great Depression behind them, countries launched a host of new multilateral institutions dedicated to international economic cooperation, including the World Bank and the International Monetary Fund (IMF).

As a part of that process, more than 50 nations drafted a charter for an International Trade Organization (ITO).¹ However, in 1950, after repeated attempts to gain congressional approval had failed, the United States announced that it would not ratify the charter. This left the ITO without a critical member and effectively killed the nascent organization.

The effects of this failure were eased by promising results under a parallel effort known as the General Agreement on Tariffs and Trade. GATT was a less formal structure than the ITO and offered an easier, more gradual route to reducing tariffs and opening markets among

1. Havana Charter for an International Trade Organization, in U.N. Conference on Trade and Employment, *Final Act and Related Documents*, November 21, 1947–March 24, 1948, p. 14, at http://www.wto.int/english/docs_e/legal_e/havana_e.pdf (September 23, 2009).

interested member nations. Rather than create an organization that regulated trade and trade-related aspects of the international economy, GATT was a treaty that focused more explicitly on reducing and eliminating specific tariffs, quotas, and subsidies.

The first reductions and rules entered into force in January 1948. Successive negotiating rounds under GATT widened and deepened international trade liberalization. A key concept enshrined under GATT is the most-favored-nation (MFN) principle, which prevents countries from discriminating between different trading partners.

The Uruguay Round, the eighth and final round under GATT, was launched in 1986 in Uruguay. It not only extended GATT rules for the trading system into several new, more difficult negotiating areas, including trade in services, intellectual property rights, and rules governing trade in agriculture and textiles, but also led to the creation of the World Trade Organization in 1995.²

GATT provided the context for significant trade liberalization among member countries from 1948 to 1994. During the Uruguay Round, GATT membership increased from 89 countries in 1985 to 128 countries in 1994. The establishment of the WTO continued the rush of new members, demonstrating that the multilateral trading system had been recognized as an anchor for development and an instrument of economic and trade reform. By 2009, the WTO had 153 members, including every major trading nation and most developing countries.

Over the course of several decades, determined negotiators around the world have built a comprehensive structure of trade agreements that promote trade and provide the assurances that trading partners need in terms of transparency and predictability. The mission is to help producers of goods and services, exporters, and importers conduct business. Critical to that mission is ensuring that trade rules are transparent

and predictable so that individuals, corporations, and governments can know what they are dealing with and be confident that trade policy will not be subject to sudden changes.

The WTO is a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thereby contributing to economic growth and development around the world. However, as so clearly illustrated by the current round of trade negotiations, the process can take time. Bilateral and regional free trade agreements allow nations the option of pursuing binding trade arrangements with countries that are willing to liberalize their foreign trade policies more quickly than multilateral negotiations allow.

Free trade agreements between countries can exist in harmony with the WTO. Legally, preferential trade agreements are permitted under the multilateral auspices of the WTO provided (1) that the agreements do not result in higher overall trade barriers for WTO members outside of an agreement,³ (2) the agreements eliminate duties and other trade barriers on a substantial amount of all trade in products originating in countries participating in an agreement,⁴ and (3) the trade barriers are eliminated within a reasonable amount of time.⁵ More than 200 trade agreements and customs unions, including NAFTA and the European Union (EU), are currently in force.⁶ Some 421 regional trade areas had been notified to the WTO as of December 2008, and 400 agreements could be in force by 2010.⁷

2. World Trade Organization, "The GATT Years: From Havana to Marrakesh," at http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm (September 23, 2009).

3. General Agreement on Tariffs and Trade 1947, Part III, Article XXIV, Section 4.

4. *Ibid.*, Section 5.

5. *Ibid.*, Section 8.

6. Member countries of a free trade area agree to eliminate tariffs between themselves but maintain independent external tariffs on imports from non-FTA member countries. Member countries of a customs union agree to eliminate tariffs between themselves and set a common external tariff on imports from non-member countries.

7. World Trade Organization, "Regional Trade Agreements," at http://www.wto.org/english/tratop_e/region_e/region_e.htm (September 23, 2009).

THE HARD POLITICS OF TRADE

Visionary leadership and sustained commitment were required to achieve this progress because the concepts that underlie the gains from trade, particularly the economic principle of comparative advantage, are not intuitively obvious. People tend to think in terms of zero sum transactions in which gains for one party imply a loss for the other. The pain of jobs lost to economic restructuring, including that caused by trade, is highly concentrated and thus politically visible, while the gains tend to be diffused throughout society in such a way that while everyone gains, the gains to any individual are not large enough to inspire acute feelings or political action.

Those politics are never harder than when times are hard, and times have been hard during the past two years. 2009 witnessed a dramatic downturn in the world economy and trade. The IMF projects that, overall, world economic activity in 2009 will have subsided by at least 1 percent. The World Bank forecasts a 2.9 percent drop in 2009 in the overall global economy. With so many nations' economies reeling, international trade is inevitably and profoundly affected.

WTO economists estimate that in 2009, exports will have dropped by approximately 9 percent in terms of volume compared to 2008. This would be the largest decline since World War II. Developed countries have seen a larger percentage decline in exports than developing countries, but developing countries are more dependent on trade for economic growth, so the decline could cause even more hardship in those countries.

The precipitous decline in trade prompted WTO Director-General Pascal Lamy to observe on July 13, 2009, that "this crisis is unprecedented in its deepness, wideness and global impact."⁸ No country is immune from harm when so many countries are experiencing a severe recession. The WTO has observed that:

8. Pascal Lamy, "Third Monitoring Report to the Trade Policy Review Body: Introductory Remarks," World Trade Organization, July 13, 2009, at http://www.wto.org/english/news_e/news09_e/tpr_13jul09_e.htm (October 9, 2009).

Not even China, with its dynamic economy, can insulate itself from global downturn when most of its main trading partners are in recession. China's exports to its top six trading partners (treating the EU as a single partner) represented 70% of the country's total exports in 2007. All of these trading partners are currently experiencing economic contraction or slowdown and are likely to exhibit weak import demand for some time.⁹

In fact, China's exports, in terms of value, were 23.5 percent lower in July 2009 than they were in July 2008. Other major exporting economies had comparable declines.

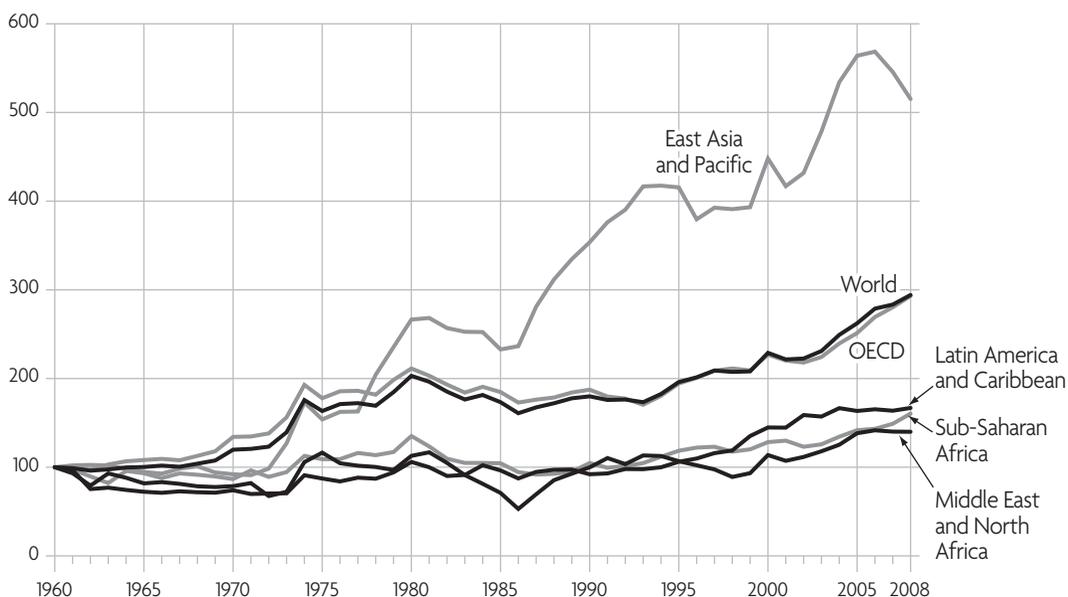
The automobile industry has been among the more dramatic examples of a sector that is heavily dependent on international trade and has been hit very hard by the worldwide economic crisis. Japan's automobile exports to the United States dropped by 30 percent in the fourth quarter of 2008. In February 2009, Germany's automobile exports were 51 percent lower than a year earlier, and America's automobile sales were 41 percent lower. The European Automobile Manufacturers Association reported that passenger car registrations in Europe in February 2009 dropped 18 percent compared to the previous year. The new EU member states of Eastern Europe experienced a 30 percent drop.

Trade slowed significantly more in the fourth quarter of 2008 and throughout 2009 than it had in previous economic downturns. There are a number of postulations as to why this is the case. In the fall of 2008, the deep and widespread contraction in credit available to finance trade transactions impeded trade globally. Every region slowed nearly simultaneously and in dramatic fashion, which caused the decline in demand for trade to be far more widespread than in the past. Global supply chains are increasingly integrated, with multiple components for a single product often

9. World Trade Organization, "WTO Sees 9% Global Trade Decline in 2009 as Recession Strikes," March 23, 2009, p. 3, at <http://www.thailandwto.org/Doc/News/6712.pdf> (October 9, 2009).

Evolution of Trade

Trade Volume Index (1960=100)



Source: World Bank, World Development Indicators Online, at <http://publications.worldbank.org/WDI> (October 19, 2009).

Chart 2  heritage.org

sourced in multiple countries. And protectionism has increased.

DIMINISHING TRADE FREEDOM

In the best of times in developed countries, making markets freer and more open requires that political leaders demonstrate courage, foresight, and sustained commitment. Opening a domestic economy to increased competition rarely, if ever, garners widespread popular support, and there are usually near-term costs in terms of the displacement of workers in industries affected by increased competition. In the worst of times, such as many of the world's economies experienced in 2008–2009, it is even more difficult for political leaders to advance trade freedom or even to keep markets as open as they were at the outset of the economic crisis.

History shows that defending and advancing trade freedom is never more important than during an economic downturn. Nations

retreat on trade freedom at their own peril and to the detriment of all trading nations. The most often-cited evidence of the dangers of retreating on trade is the Depression-era enactment in the United States of the Smoot–Hawley Tariff Act of 1930, which raised tariffs on over 20,000 products to an average of 60 percent. Other countries responded accordingly, and there was an escalating pattern of retaliation and counter-retaliation. Along with tariffs, export subsidies were increased, currencies were depreciated, and the toxic stew of protectionism proved devastating to economies around the world.

By 1932, U.S. exports to Europe were just one-third of what they had been in 1929. World trade overall fell two-thirds in the first few years of the Great Depression, and the world learned a painful lesson. That lesson has not been forgotten, but whether it will be sufficiently heeded to avoid protracting and deepening the current economic crisis remains to be seen.

TRYING (AND FAILING) TO HOLD THE LINE

Mindful of the dangers of nations retreating on trade freedom during an economic downturn, on November 15, 2008, finance ministers and central bank governors of the Group of 20 (G-20) nations issued a statement at the Summit on Financial Markets and the World Economy pledging to resist resorting to protectionist measures:

We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports. Further, we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also agree that our countries have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome.¹⁰

The G-20 pledge notwithstanding, on March 17, 2009, the World Bank issued a study showing that these same G-20 nations had implemented 47 measures that restrict trade at the expense of other countries. The study found that since the outset of the financial crisis, policymakers in the G-20 had proposed and/or implemented 78 trade measures, 66 of them containing trade restrictions; 47 trade-

10. Press release, "Declaration of the Summit on Financial Markets and the World Economy," Office of the Press Secretary, The White House, November 15, 2008, at <http://www.iasplus.com/crunch/0811g20declaration.pdf> (October 9, 2009).

restricting measures took effect.¹¹

World Trade Organization Director-General Pascal Lamy stated in that same month that WTO members were exhibiting a "worrying tendency toward increased trade protectionism as a result of the deepening global economic crisis." He said that the WTO had found 85 verified trade measures put forth by 23 countries from September 2008 to March 2009 and that the large majority were trade-restrictive.¹²

The slow rise of protectionism is confirmed by the trade freedom rankings in the *2010 Index of Economic Freedom*. Using tariff data through 2008 and non-tariff barrier data covering the period from July 2008 through June 2009—the period coinciding with the beginning of the worldwide recession in most countries, but generally capturing only the earliest policy responses by governments—the rankings are starting to reflect the impact of rising trade barriers on some countries' scores.

The rankings show that for the world as a whole, average tariffs fell 0.5 percentage point from 7.3 percent in the 2009 *Index* to 6.8 percent in the 2010 *Index*. While average tariff rates fell, the average penalty for non-tariff barriers to trade rose 0.2 point from 11.7 in the 2009 *Index* to 11.9 in the 2010 *Index*. From the 2009 *Index* to the 2010 *Index*, 37 countries experienced a decrease in trade freedom of at least one point, and three countries scored at least 10 points lower.

Approaches to protectionism vary. Blatantly protectionist or "beggar-thy-neighbor" policies by WTO members are subject to limi-

11. Elisa Gamberoni and Richard Newfarmer, "Trade Protection: Incipient but Worrisome Trends," World Trade Organization *Trade Note* No. 37, March 2, 2009, p. 1, at http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf (October 9, 2009).

12. Dick K. Nanto, "The Global Financial Crisis: Foreign and Trade Policy Effects," Congressional Research Service *Report for Congress* R40496, April 7, 2009, p. 22, at <http://74.125.113.132/search?q=cache:m4B58zj-7FEJ:handle.dtic.mil/100.2/ADA497762+wto+worrying+tendency+toward+increased+trade+protectionism+as+a+result+of+the+deepening+global+economic+crisis&cd=1&hl=en&ct=clnk&gl=us> (October 9, 2009).

tation, but WTO rules and obligations do allow for considerable restraints on trade.

- For example, if all WTO members raised tariffs to previously agreed maximum or “bound” rates, tariffs would double worldwide, and the effect on the flow of goods and services between nations would be profound: according to WTO estimates, an 8 percent reduction in world trade.

- WTO rules allow nations to favor domestic industries through relief or subsidy programs, stimulus efforts, currency depreciation, and program stipulations requiring the purchase of domestically produced or sourced goods.

- WTO rules also permit the imposition of countervailing duties on unfairly subsidized imports and other responses against imports that are deemed to be “dumped” (i.e., that cost less than their fair value), thereby unfairly undercutting an importing nation’s domestic industry.

The World Bank study found that about one-third of the trade-related actions that it identified involved tariff increases. For instance, Russia raised tariffs on used automobiles, and Ecuador raised tariffs on more than 600 items. Non-tariff protectionism included Argentina’s imposition of non-automatic licensing requirements on auto parts, textiles, TVs, toys, shoes, and leather goods and Indonesia’s stipulation that five categories of goods (including garments, footwear, toys, electronics, food, and beverages) would be allowed in only a few ports and airports.

Some nations tightened standards to slow import entry. Examples include China’s import prohibition on Irish pork and some Belgian chocolate, Italian brandy, British sauce, Dutch eggs, and Spanish dairy products. India banned Chinese toys. The European Union announced that it would be implementing new export subsidies on butter, cheese, and milk powder.

Subsidies can constitute a form of protectionism, and they have proliferated in many countries to benefit domestic auto industries. The World Bank found that by March 2009, these subsidies to auto industries already totaled \$48 billion worldwide. The United States, Canada, France, Germany, the United Kingdom, China, Argentina, Brazil, Sweden,

and Italy provided direct or indirect subsidies to avoid layoffs of automobile industry workers. Australia provided support to domestic car dealers, and South Korea and Portugal directed aid to automobile component suppliers. The World Bank study noted that such subsidies skew needed adjustments in an industry that, on a worldwide level, suffers from excess capacity.

The American Recovery and Investment Act of 2009—the so-called stimulus legislation in the U.S., which contains a “Buy American” provision—is emblematic of the historic sensitivities related to protectionism in government procurement. The 1947 General Agreement on Tariffs and Trade excluded government procurement. In the following decades, government spending became an increasingly large factor in many nations’ GDP, most notably in countries in which entire sectors of the economy were nationalized, such as steel and airlines. The 1979 Tokyo Round of GATT negotiations resulted in an Agreement on Government Procurement, which members had the option of joining.

The government procurement provision was the only code from the GATT Tokyo Round not to be made a mandatory requirement for membership in the World Trade Organization. The Uruguay Round of the GATT negotiations (1986–1993), which created the WTO, covered government procurement insofar as it relates to antidumping and subsidies in its mandatory agreements, which are binding on WTO members, but members generally may still enter into plurilateral agreements that affect government procurement. China, India, and Brazil have not joined the Agreement on Government Procurement.

Protectionism can also stem from legislation that is apparently entirely unrelated to international trade or the current economic downturn. For instance, efforts to address global warming by implementing government programs that require permits to emit carbon will significantly increase costs for manufacturing and other industry sectors. As a consequence, nations with such carbon-reduction systems will suffer reduced competitiveness compared to countries with few or no restrictions on carbon emissions.

It is inevitable that there will be domestic pressure to impose import tariffs to offset the competitive advantage enjoyed by countries that do not impose such expensive restrictions.

For governments, industries, and labor organizations, protectionism in its various forms always has been and likely always will be appealing in both good and bad times. Protectionism is never more alluring, treacherous, and destructive than it is in the most severe economic crises, such as the one that the world is experiencing today. Moreover, as the experience of the 1930s demonstrates, reversing its harmful effects takes valuable time, thereby allowing the crisis to worsen and delaying recovery.

REASONS FOR OPTIMISM

The current economic downturn is occurring in a worldwide economy and an international system of trade rules that are not entirely analogous to the 1930s, the period of widespread and severe economic distress known as the Great Depression. In the 1930s, nations were able to increase trade barriers without running afoul of international agreements. Today, instead of instantly retaliating, WTO members can utilize WTO dispute resolution mechanisms, and there is wider recognition of the perils of protectionism and the benefits of freer trade.

The world's economies, industries, and corporations are exponentially more reliant on world trade than they were in the 1930s, a tremendously consequential fact that tempers demands for protectionism in the 21st century economy. International diversification and joint ventures with foreign partners lessen the desire for protectionism, as does the increased presence of foreign companies with production facilities in domestic markets.

The current downturn began in a world economy that is far more open than that of the 1930s. Trade tariffs, which averaged about 50 percent in the 1930s and 25 percent in the 1980s, average around 10 percent today. Dramatic tariff increases today would be devastating were they to occur. Meanwhile, there is far more latitude today for freer trade to help lift the world's economies.

There are other contrasts with the Great Depression era. While the automobile industries in Asia, the U.S., and Europe declined precipitously in 2008–2009, it is not nearly as serious as the decline in 1932, when automobile manufacturing dropped 90 percent. The bank failures of 2008–2009, while disturbing, are a fraction of the 10,000 bank failures in the U.S. in 1933, or even the failure of over 3,000 savings and loan institutions in the U.S. in the late 1980s.

The World Bank's March 2009 study found several structural impediments to protectionism that did not exist in the 1930s and that may serve as effective firewalls against destructive anti-trade measures:

Countries are far more interdependent through supply chains, imported inputs, and even services. Export interests are far more powerful than before relative to pure import-competing industries. Producers for the domestic market are more reliant on imported inputs, and production chains link global markets through a web of trade in parts and components. The simple average of trade-to-GDP is today 96 percent compared to 55 percent in 1970—and parts and components trade, an indicator of supply chains, has more than doubled as a proportion of total trade. In addition, successive GATT/WTO agreements have provided much greater legal stability of trading relations. Because of this quite different political economy today, a few proposed restrictions have been rejected or not enacted. In Brazil, for example, the bureaucracy attempted to impose widespread licensing arrangements and import controls reminiscent of the 1970s, only to provoke a response of outrage from the private sector that led to immediate reversal. Similarly, the more egregious forms of the Buy America provision appear to have been circumvented. Moreover, about 10 of the 77 proposed and implemented changes in trade policies involved steps

toward greater liberalization, mostly related to free trade agreements.¹³

WTO agreements are binding legal documents that cover a wide range of activities and deal with a range of issues involving agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, and intellectual property. Overriding principles in the WTO include treating trading partners equally, treating foreigners and locals equally, and negotiating to reduce barriers to trade.

Protectionism is sometimes in the eye of the beholder, and protectionist provisions can be found in the trade agreements of the World Trade Organization, where trade-restraining options are referred to as “contingency” or “defensive” trade measures and may include tariff increases and countervailing and antidumping duties levied on imports. These defensive measures were included in trade agreements to make the costs and risks palatable to signatories. If implemented, they could exacerbate a decline in world merchandise trade that the WTO predicts could total 10 percent.

There is ample reason to hope that the existence of these contingency-defensive provisions will deter some protectionist actions. The WTO recognizes that the contingency measures in trade agreements are not harmless if implemented and that their consequences can be serious. The press release announcing its 2009 World Trade Report observes that:

[C]ontingency measures can be seen as an instrument of adjustment policy, to allow for temporary relief from import competition.... They can also serve to

deter certain trade actions employed by trading partners. Moreover, they can act as a means of helping to maintain the rule of law in international trade, in that they channel otherwise arbitrary protectionist actions into prescribed and predictable policy measures.¹⁴

BOOSTING INTERNATIONAL TRADE AND DOMESTIC CONSUMPTION

In the 1930s, the U.S. was the world’s largest current account surplus country. Today, that distinction goes to China. The “current account” measures a nation’s international transactions, including trade in goods, services, investments, and transfers. The world’s current account surpluses in 2008 were estimated to total about \$2 trillion. High-saving countries, including China, Japan, and Germany, have been dependent on exports to generate economic growth. The U.S., being in recent years a non-saving nation in which consumer spending has accounted for 70 percent of the economy, was chief among those nations that were only too happy to oblige through huge amounts of consumption of imported goods and borrowing from overseas.

The collapse of the housing and credit markets, rapidly rising unemployment, the declining stock market, and plunging consumer confidence all contributed to a dramatic contraction in domestic spending and investment in the U.S. and other nations. Americans suddenly became savers, and the U.S. current account deficit dropped to 2 percent or 3 percent of GDP in 2009, down from 6 percent in 2006. To sustain their own economic growth, the current account surplus countries must generate more economic activity within their own borders. This will not be easy for a variety of reasons, some of them rooted in differing national cultures.

- It has been estimated that to offset the decline in U.S. consumption alone, China would have to boost domestic consumption by 40 percent, but that may be beyond the capacity of the Chinese government to do on its own.

13. Press release, “Protectionist Measures Show Worrisome Rise Since Beginning of Financial Crisis: Study Shows 17 of G-20 Countries Have Implemented Trade-Restricting Measures,” The World Bank, March 17, 2009, at <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22105847~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html> (October 9, 2009).

14. Press release, “World Trade Report: Keeping Trade Open in Times of Crisis,” World Trade Organization, July 22, 2009, at http://www.wto.org/english/news_e/pr565_e.htm (October 9, 2009).

To spur greatly increased consumer spending by China's households would require changing the behavior of a citizenry accustomed to saving up to 25 percent of their income.

- The Japanese people historically also have saved a higher proportion of their income, and the entire nation—poor in natural resources but rich in productive workers—has been geared toward exporting since the end of World War II.

- Germany has been the world's largest exporter of manufactured goods, is accustomed to export-led growth, and, with post-World War I hyperinflation in mind, got in the habit of stability in its fiscal policy. German citizens are also prodigious savers, especially in this worldwide economic environment.

Changing these behaviors will be difficult, but it must be done both to sustain growth in these countries and to make growth possible in others. Alternatives such as protectionism, which seeks to further insulate domestic markets and unfairly advantage exports to other nations that have their own problems, will surely be met with protectionist backlash. That is why it is so important for WTO member countries to reaffirm their commitment to more open markets for trading.

What became abundantly clear in the 1930s after protectionism exploded and trade collapsed, and is even clearer today, is that no country and no region can go it alone and prosper for long. The post-World War II GATT negotiations and the subsequent creation of the World Trade Organization and numerous regional and bilateral trade agreements are testament to this fundamental truth.

The current economic crisis should underscore the urgency of completing the WTO's Doha Development Agenda of multilateral trade negotiations, which began in 2001 and would achieve important breakthroughs on trade in agricultural products, industrial goods, and services. Success in the Doha Round of WTO negotiations would boost specific trade sectors, provide more deterrence against protectionism, and encourage worldwide confidence in future trade freedom and prosperity. As U.S. Trade Representative Ron-

ald Kirk stated in advance of a meeting of WTO ministers in New Delhi in July of 2009, "Completion of the Doha round can be a key element of helping the world recover from this global economic crisis."¹⁵

STAYING ON COURSE

World trade is and should be a constantly evolving phenomenon, each trade agreement a segue to the next, with ever greater trade freedom the result. But trade is highly competitive and complex, and never more so than in an economic downturn such as the world has experienced since 2008. Temptations to gain short-term advantages through the protectionist tactics of higher tariffs, subsidies, and other devices abound.

Such tactics, however, are doomed to fail. It is true that they may protect a non-competitive industry or save a few specific jobs, but they will do so only for a short time, and at an extremely high cost. Societies undertaking such protectionist measures impose costs on themselves that include higher prices on goods and services for consumers and producers and lower productivity and wages for workers. The new jobs that would have been created in an open and rapidly evolving economy never materialize, and economic stagnation replaces growth in societies that doom themselves to underdevelopment.

For six decades, the world has reaped the benefits of rapidly expanding trade. That expansion has come to a stop during the recession of 2008–2009. If governments succumb to political pressure or panic, a protectionist response could turn a temporary setback into a long-term change of course that would harm world economic growth for decades. If, instead, leaders remain true to the vision of world integration and interdependence that inspired their predecessors, renewed economic growth and the trade that flows from and underpins it will surely follow.

15. Meena Thiruvengadam, "USTR Kirk Expresses Optimism Over Doha Round Potential," Dow Jones Newswires, September 1, 2009, at http://online.wsj.com/article/BT-CO-20090901-713439.html#articleTabs_article (October 9, 2009).