

CONFERENCE ON THE GREAT TRADE DEBATE  
CO-SPONSORED BY THE FEDERAL RESERVE BANK  
OF CHICAGO AND THE BROOKINGS INSTITUTION

Chicago, Illinois  
December 2, 1998

.....

- A. Thank you. It's a great pleasure to see such a large turnout for what we anticipate will be a very interesting and provocative conference.
- The Chicago Fed is pleased to have organized today's forum in cooperation with the Brookings Institute, the Chicago Council on Foreign Relations, and the Center for Studies in International Finance at the University of Chicago.
  - We thank our co-sponsors for their assistance.
- B. Today's topic—international trade, including the benefits and problems associated with it—is an important, timely, contentious, and too often misunderstood topic. It's a topic that frequently raises passions on both sides.
- Our hope is that our discussion will help to supplant that passion with ideas that will provide a solid foundation for sound public policy.
- C. Our conference is designed to break through the rhetoric that surrounds many trade issues and get to the facts.
- We are delighted to have assembled a distinguished group of panelists who will be able to share their wide-ranging expertise and experience and move us from theory to reality.
  - In our first panel this morning, we will look at where we are today and try to assess the impact of globalization on our nation, the Midwest, and on individual companies, workers, and consumers.
- D. After a short break, we then move to a future orientation in our next panel and look at where we're heading. We are now five years beyond NAFTA. What's next?

- Can we expect more trade pacts?
  - Or is the U.S.—which historically led the rest of the world in reducing trade barriers—moving in another direction?
  - What are some of the other issues surrounding trade that must be addressed to move international commerce forward?
  - What are some of the impediments inhibiting free trade?
- E. Then after lunch, we're pleased to have Robert Mallett, deputy secretary of the Department of Commerce, who will deliver the keynote address.
- F. But before we get started, I'd like to set the stage for our discussions by highlighting some recent developments in international trade.
- G. First, I should clarify that I do have a long-standing interest in and some personal perspectives on this subject.
- As some of you know, I served as deputy U.S. trade representative during the early 1990s, with responsibility for negotiating trade arrangements with European and various eastern Asian countries, including Japan.
  - As you might guess, given my background, I tend to believe that open markets and expanded trade are desirable. Here most economists agree. And the U.S. has been a leader in advocating free trade.
- H. Nevertheless, we're seeing some strong disagreement on the issue of free trade. These disagreements are reflected in Congress' refusal to grant the President fast-track authority to negotiate trade arrangements.
- The timing of this negative reaction in the U.S. is surprising because the economy is doing so well today.
  - But the issue of free trade does raise a host of complex questions about job security and income gaps between workers in different countries.
  - While the economy as a whole can be better off, a plant may close, putting hundreds or even thousands of people out of work in a local area.
  - On the other hand, the benefits of free trade, which are reflected indirectly in lower prices and wider choice for consumers, are difficult to relate directly to trade.
  - Deciding how to respond to this reality of the market place is an on-going issue of public debate.
- I. These are legitimate questions that need to be addressed. It's important to hear all sides of the debate. That's one of the reasons we're sponsoring today's conference.
- J. What are some of the recent developments in international trade?

- First, any chronology of trade issues today really must begin with GATT, the General Agreement on Tariffs and Trade.
  - In the 50 years since GATT was initiated, the world's economies have significantly lowered tariffs so that today average tariffs are only about one-tenth what they were before GATT.
  - Eight separate multilateral “rounds” of international trade talks have been held to lower tariffs and liberalize trade.
- K. The most recent was the Uruguay round, covering 125 countries, completed in 1993 — the most ambitious of the GATT rounds.
- Among the agreements were rules governing trade in agriculture, services, and intellectual property, such as patents and computer software.
  - One significant result of the Uruguay round was the creation of the World Trade Organization, WTO — a permanent organization with power to arbitrate trade disputes.
- L. Second, an extremely important regional trade agreement, the North America Free Trade Agreement (NAFTA) was signed in 1993. This was one of the most hotly debated accords in recent history.
- On the one side, NAFTA critics regarded the expansion of free trade to a developing country such as Mexico as a dangerous precedent. They envisioned U.S. jobs lost in a flood of goods from a country with an average wage one-fifth that of the U.S.
  - Others saw NAFTA as a boon to U.S. employment and living standards through greater trade and investment opportunities.
  - We'll hear more on NAFTA and its impact on both the U.S. and Mexican economies later this morning.
- M. Third, a very significant recent development in trade is taking place now in the European Union.
- They are making historic moves to restructure their economies, move to a common currency, and establish a common European central bank with a common monetary policy, all by January 1999.
  - These are fundamental, structural changes that involve governmental and oversight changes that go far beyond trade issues, of course.
  - All the details haven't been worked out, but the direction and commitment are clear — the European economies are moving toward greater interdependency.
- N. A fourth development that we're seeing more and more is open international financial markets. The free, cross-border flows of capital have benefited many economies and have been cited as one of the significant reasons for an increase in the world standard of living.
- Unfortunately, such a free flow of funds and capital also can have a downside as we've seen in the recent crisis in Asia.

- Many people have discussed various solutions. Some have suggested curtailing the cross-border flows. But most experts in financial markets see solutions centering on improved oversight or improved fundamentals in individual countries.
  - Stopping the flows would be like throwing the baby out with the bath water.
- O. Finally, I would like to mention an important future development. I see the opening of the economies of central and eastern Europe, and China and India as significant developments in the future.
- These are important economies that account for more than one-quarter of the world's population and between 5 and 10 percent of world GDP.
  - These relatively untapped markets represent a huge opportunity for the U.S.
- P. My job this morning is to set the stage for our discussions, not to draw conclusions from these developments. So I'll stop now and turn the podium over to Robert Aliber who will moderate.
- We won't use our valuable time today to recite the bios of our distinguished speakers, which are included in your programs.
  - Let me just say that in addition to being a distinguished professor of international finance at the University of Chicago and the founder of that institution's Center for Studies in International Finance, Bob Aliber is one of the nation's leading commentators on international economic issues, and, of course, is a co-sponsor of today's conference.
  - I'm pleased to turn the proceedings over to the Bob Aliber.
  - Bob.