

CHICAGO COUNCIL ON FOREIGN RELATIONS AND IVY LEAGUE/SEVEN SISTERS  
ROUNDTABLE OF CHICAGO  
PANEL ON GLOBAL TRENDS FOR THE NEW CENTURY: IS THE WORLD  
GETTING BIGGER OR SMALLER?

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**Open Markets and Expanded Trade**

Today, the attention of our world leaders is focused on the dangerous and difficult situations in Iraq, North Korea, Afghanistan, the Middle East and other hot spots. And we are all concerned about terrorism and terrorist threats.

While these are global issues of the first priority, I'd like to talk to you about another issue that may not seem as pressing but which also has significant implications. And that's the issue of strengthening our global community through open markets and expanded trade. I believe this is vitally important to our long-term prospects both as a nation and as a world community. Global trade is an area I've been involved with in the past as a deputy trade representative, and it's an area of particular interest given tonight's topic of global trends in the new century.

Over the past several months, while the war against terrorism has been constantly on our minds, trade ministers from around the world have been meeting and working on new agreements to strengthen our commercial ties.

We are in the midst of a major new round of WTO [World Trade Organization] negotiations. The OECD [Organization for Economic Cooperation and Development] has been meeting to provide a framework to reduce government subsidies to the steel sector. And the U.S. has made significant progress on free trade agreements with Singapore and Chile.

So, tonight I thought I would frame the panel discussion by talking broadly about globalization and some of the surrounding issues.

## Open markets foster prosperity

Let me begin by stating a core principle to which most economists subscribe: Open markets, expanded trade and increased cross-border investment help raise people's living standards. This principle has, so far, survived several centuries of active, lively debate. It also provides a clear sense of direction for international trade policy.

Why do economists generally subscribe to this principle? Let me begin by sharing some relevant statistics. Despite recent economic uncertainty, the United States and much of the rest of the world have never before been as affluent as they are today. Real disposable personal income in the U.S. in 2001, on a per capita basis, was double the 1967 level and four times the 1940 level.

We also have seen a dramatic rise in economic openness among nations. For the United States, total trade (measured as exports plus imports) has increased from less than 10 percent of GDP in 1940 to nearly 25 percent today.

The parallel rise in openness and affluence is no coincidence. Economic studies have repeatedly found that openness promotes prosperity. Looking across the countries of the world, you find that the economies most open to trade and investment are those with higher per capita income. That is because cross-border investment fosters an efficient reallocation of resources that leads to productivity improvements, higher economic growth and, most important, a higher standard of living. And I want to emphasize that this relationship holds for both developed and developing countries.

This growth occurs for a number of relatively simple reasons. In essence, when firms can purchase the highest quality and lowest cost materials from anywhere in the world, their production costs fall. These lower costs lead to lower prices and better choices, which spread broadly throughout entire societies.

Conversely, high tariff barriers can directly increase costs of production. One example is the U.S. sugar industry, where trade protection has pushed the domestic price of sugar well above the world price. In recent years, we paid almost five times the world price. That is a huge difference, and one of the unintended consequences is that candy factories here in the Midwest are relocating to countries such as Canada, where the price of sugar is not artificially increased.

It's important to note that the benefits of lower prices are largest for those with low and moderate incomes. Because free trade lowers the price of everything from food and clothing to automobiles, those who spend the largest fraction of their income on these goods reap the largest gains.

## Issues arising from globalization

Based on what I've said so far, you can see I believe there's a connection between open markets and higher standards of living. But obviously, if the discussion were that easy, we wouldn't be here tonight. Even if one accepts that globalization generally raises standards of living, there are challenging issues that need to be addressed. Let me touch on four of them briefly:

Worker displacement. Some workers and industries lose out. As trade barriers fall, some industries and their workers inevitably find themselves facing sharp competition from imports. Although other firms will see input costs fall, allowing them to expand production and increase hiring, those who lose their jobs won't necessarily find a new, equally satisfying job quickly. These workers find little comfort in knowing that consumers overall are benefiting from low prices. Hence, we must find ways to cushion short-term dislocations so that we can achieve the benefits of open markets and expanded trade.

Global distribution of benefits. One role of economists is to remind people that trade is not a zero-sum game — one person's benefit is not someone else's loss. Both sides of a transaction benefit. Nevertheless, some countries may benefit more than others. Even more seriously, some countries may be left out of the process entirely. Clearly, much work remains to be done to ensure that all countries — especially the poorest — participate and benefit fully from a more open global trading system.

Labor standards. Many people worry about the effects of trade on labor standards in developing countries. As developing countries emerge from poverty, they need to determine what standards need to be established and at what stage of development they should be imposed. In other words, what's the timing for establishing standards for minimum wage, worker hours per week, worker safety, child labor laws, and so on — and who should set the standards?

Environmental impact. Unless properly controlled, there are potential negative effects of economic activity on the environment. Since air and water pollution can easily cross national borders, international negotiations need to take account of these environmental effects. But countries are at widely different stages of development. So the key questions are, what standards should be imposed, and at what stage of development?

To wrap up, it's clear that I accept the consensus view among economists that there's a relationship between globalization and prosperity. One's agreement or disagreement with this principle, of course, provides a key premise for much of the discussion of the very important concerns that people raise.

Are the concerns viewed mainly as hurdles to be overcome?

Or, are they seen as reflecting fundamental problems with the direction of the global economy?

I'm very much looking forward to hearing the panelists' views on these issues.