

Trade Agreements and Populist Protectionism

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Americans offer to the world a simple idea: the progress of mankind is best served by empowering individuals and competition. Universal suffrage and free elections, private enterprise and free markets, best promote peaceful cooperation among nations, personal liberty and dignity, and material progress for all.

U.S. international economic policy is plainly revealed by advocacy for the World Trade Organization and the various trade agreements that deepen cooperation with developing countries, like Mexico and Chile, and nations in transition from socialism, like China and Russia.

The premise undergirding free trade is simple. Let each nation and individual specialize in what they do best and everyone prospers better. More imports raise living standards by providing cheaper goods, and more exports raise productivity and create higher paying jobs.

Increasingly, free trade is under attack by what former Bush Administration Deputy Secretary of State Robert Zoellick and his colleagues call populist protectionism.

In Brazil, India and China, state-directed capitalism holds sway, and these nations block progress in WTO negotiations by refusing to open their markets.

U.S. workers, deprived by the rapidly rising trade deficits of opportunities to replace jobs lost to imports with better jobs in export industries, wonder where the promise of free trade has gone. They lobby Congress to slow globalization.

To counter populist protectionism in Latin America and at home, Mr. Zoellick suggests deepening commercial integration with the twelve nations with whom the United States has negotiated free trade agreements through an Association of American Free Trade Agreements (AAFTA). Such an institution could extend free trade to nonparticipating countries like Brazil, reinforce cooperation on immigration, labor rights and the environment, and assist businesses in building out markets on a hemispheric scale.

What Mr. Zoellick and the trade policy establishment fail to understand is that free trade is under attack because the U.S. government, under both Democratic and Republican Administrations, has failed to make free trade agreements work as they should.

Most significantly, the United States and European Union substantially opened their markets by admitting China to the World Trade Organization. Now, Federal Reserve Chairman Ben Bernanke and others have concluded that China subsidizes exports by maintaining an artificially undervalued yuan. More broadly, China engages in a myriad of industrial policies that promote exports, block imports and create huge trade surpluses.

Instead of standing up to China, the Bush Administration has engaged in endless diplomacy bordering on appeasement. Observing that China's growth is surging at better than 10 percent while its inflation remains contained at less than 2 percent, other developing countries are attracted to China's brand of state-managed capitalism.

China's authoritarian government, coupled with its growing and prosperous working class, throws cold water on the American thesis that democracy and free markets are the best prescription for raising millions beset by poverty in the developing world. But China is succeeding because Washington lets Americans fall prey to its mercantilism.

U.S. workers displaced by imports from China are not finding good paying jobs making exports to

be sold in the Middle Kingdom, because Washington tolerates China's mercantilism. Instead, these workers are forced into low paying service industry jobs, where health insurance and other fringe benefits are scarce.

Top corporate managers, investment bankers, and other professionals, who engineer and arrange financing for outsourcing, enjoy rapidly rising incomes, but many ordinary working Americans are poorer for the game. For the moment, Americans live beyond their means by borrowing from the Chinese and other foreigners, but that debt grows by more than \$50 billion each month and has reached \$6 trillion.

The United States doesn't need more trade agreements; it needs to make the ones it has work better. Americans who embrace that position are not populist protectionists; rather they want something done about malignant Chinese protectionism.

Mr. Zoellick and his colleagues, by tarring those who disagree with them as protectionist, display an arrogant disregard for their ideas and integrity, and a disturbing neglect for the conditions of ordinary working people whose lives have been degraded by the trade agreements gone awry.

An AAFTA and a free trade agreement with a country like Brazil would plague American workers with another China. Bent on exporting, without importing, Brazil would deprive even more American workers of good paying jobs without offering them prospects for rewarding employment through equally increased exports.

Before Mr. Zoellick and his colleagues propose any more trade agreements, they should suggest a strategy to get China and others to live up to their commitments under the trade agreements we already have.

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