The Heritage Foundation

MEMO TO: President-Elect Clinton

No. 5

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December 30, 1992

HOW TO EXPAND WORLD TRADE TO SPUR U.S. ECONOMIC GROWTH

The issue here is not whether we should support free trade or open markets. Of course we should.... We simply cannot go backward when the rest of the world is going forward into more integrated econom[ies]. We cannot go inward when our opportunities are so often outward.

Bill Clinton, Remarks at North Carolina State University, Raleigh, North Carolina, October 4, 1992.

If we can make this [NAFTA] agreement work with Canada and Mexico, then we can reach down into the other market-oriented economies of Central and South America to expand even further.... It will provide more jobs through exports. It will challenge us to become more competitive. It will certainly help Mexico . . . . A wealthier Mexico will buy more American products. As incomes rise there, that will reduce pressure for immigration across the border into the United States . . . .

I think that a major part of our economic future rests in building up a strong two-way trade with Latin America . . . I hope we can get a trade agreement with Chile. I'm very encouraged by what's going on in Argentina now.

Bill Clinton, Remarks at the Bipartisan Congressional Leadership Press Conference, November 19, 1992.

EXECUTIVE SUMMARY

You defeated George Bush, President-elect Clinton, in large part because of your promise to restore economic growth in America. You will take office at a time when the economies of all the world's countries are more integrated than ever. And a high level of trade between nations helps bring prosperity to citizens of those lands. Thus you were correct to point out during the campaign that promoting free trade is a necessary and vital component in a strategy to increase economic growth and the national well-being of all Americans. By contrast, history shows that countries which deny competitors free access to their markets doom their citizens to lower living standards and weaken the competitiveness of their own industries.

The free trade policy generally practiced by the United States has allowed Americans to achieve the highest standard of living in the industrialized world. To raise these standards further in the future, and to spur greater productivity in American industry, you should press for even more open world markets, especially through free trade areas, and avoid the mistakes of protectionism.

Your trade strategy should be based on the plain fact that global competition today is not between separate industries in separate nations, but really between individual companies that are owned by the citizens of many countries and whose production, marketing, and sales transcend national borders. Thus, for America to be competitive and to prosper, American citizens and U.S.-owned enterprises must be free to do business in the global arena with the minimum government constraints. A free trade policy avoids the dangers of "looking inward when our opportunities are so often outward."

Mr. Clinton, to retain America as the premier world trader, and to sharpen American competitiveness, you should institute a series of short-term action items and long-term reforms. Specifically, within your first 100 days in office, you should:

Action 1: Urge Congress to ratify the North American Free Trade Area (NAFTA) Agreement. This agreement, the result of several years of hard negotiations, and signed recently by the leaders of the U.S., Canada, and Mexico, will create jobs and spur economic growth in all three countries. The agreement also will make the U.S. more competitive with Japan and Europe.

Action 2: Conclude the Uruguay Round of the General Agreement on Tariffs and Trade. Six years of negotiations have produced near agreement on a range of world trade issues. While not solving all of the world's trade problems, the Uruguay Round is poised to create a much freer and more uniform global trade environment—one which would be very beneficial to Americans.

Action 3: Commence free trade area negotiations with Chile. With NAFTA firmly in place, and trade framework agreements already signed between the U.S. and every Central and South American country, you should begin negotiations to expand NAFTA by incorporating other Latin American countries. Opening detailed discussions with Chile, which has the freest market in Latin America, should be your first priority in expanding free trade with Latin America.

Action 4: Seek from Congress an extension of fast-track trade negotiating authority. Fast-track authority is given to the President by Congress. It permits a President to negotiate an agreement and then present it to Congress for approval or rejection without amendments. You need this authority to pass trade agreements as complex as a free trade area, because amendments in Congress would scuttle the carefully balanced give-and-take provisions of a trade treaty.

In addition to these short-term actions, Mr. Clinton, you should pursue longer-term policies designed to open further foreign markets and allow American companies to meet the global competitiveness challenge. Among these:

Action 5: Seek free trade areas with Eastern European and Asian countries. Many Asian countries are emerging as strong competition to Japan. In addition, many Eastern European countries are converting to free markets. Free trade area agreements with the new democracies of Europe would hasten their economic transformation and strengthen their fragile democratic institutions. Further, agreements with Eastern Europe and the new generation of strong Asian economies benefit U.S. citizens and give your Administration greater leverage as it attempts to open further the markets of the European Community and Japan.

Action 6: Eliminate costly U.S. regulations that impede American firms. Many U.S. regulations, while well-meaning, achieve little public good and cripple the international competitiveness of American firms. You should create a task force to review thoroughly both existing regulations and proposed new rules.

Action 7: Reform outdated U.S. trade laws. Many antiquated trade laws left over from the early 1900s are still enforced today. The global economy has changed greatly since then and many of the laws are counterproductive.

Action 8: Avoid policies that seek to "manage" international trade. The complexity of the international economy is beyond the ability of Washington bureaucrats to manage. You should not attempt to do so. Rather, the market is better able to determine how resources are allocated, prices are set, and what products are produced. For this reason, you should ignore the calls from Capitol Hill, and from some of your own advisors, to manage U.S. trade.

You are assuming office, Mr. Clinton, at a time when the economies of the world are growing irreversibly more integrated and when America must keep its markets open and its industries highly competitive if it is to remain the leader in the new global economy. You were correct during your campaign to reject the protectionist policies that, unfortunately, have been the staple of many members of your own party.

The challenge for your Administration thus is not going to be in discovering which trade policies would most benefit the American people. You evidently know that. Your challenge will be to exercise the political will needed to defeat the special interests who clamor for protectionism and to exercise the leadership needed to assure a future of worldwide free trade.

THE INTERNATIONAL ECONOMY

Today's global economy is made up of companies whose products are sold with little regard to regional borders. In many cases, these companies use raw materials, semi-finished products, labor, and capital from different countries to manufacture and sell their products. To obtain economies of scale and greater efficiency, companies often must ignore national borders. Thus a country cannot remain a world economic power if its companies do not have the options of manufacturing at home and abroad and importing foreign components, gaining access to foreign technologies, management, and marketing techniques through joint ventures, and exporting the final product.

Top 5 World Exporters: 1991

	Billions of Dollars
United States	$421.755
Germany	403.208
Japan	314.892
France	216.512
United Kingdom	184.960

Source: *Direction of Trade Statistics Yearbook: 1992*, International Monetary Fund.

Top 5 World Importers: 1991

	Billions of Dollars
United States	$509.300
Germany	390.114
Japan	236.633
France	232.902
United Kingdom	209.933

Source: *Direction of Trade Statistics Yearbook: 1992*, International Monetary Fund.

Mr. Clinton, you will soon become President of the largest exporting country in the world. The United States sold $421 billion worth of goods in 1991, and it is the largest trader in the world, with $930 billion in imported and exported goods (see tables on previous page).[1]

In your campaign, you pointed out that America has a trade deficit, while Japan and Germany have trade surpluses. Yet this is not an indication of American weakness. It is an indication of strength. America's trade deficit is a reflection of its standard of living, which permits Americans to purchase goods from all over the world. This standard of living is higher than in both Germany and Japan. In fact, both of these countries sacrifice a higher standard of living by keeping their markets more closed to foreign goods than America does.

U.S. Citizens Still Top World in Purchasing Power

	Per Capita Gross Domestic Product
United States	$20,998
Germany	14,507
Japan	14,311
France	14,164
United Kingdom	13,732

Note: Data are for 1989. Figures represent Purchasing Power Parities, which take into account exchange rates, inflation and other currency differences.
Source: *United Nations Human Development Report*, United Nations Development Program, 1992.

America has achieved and maintained this living standard in part because of its open market. America's dedication to free trade has allowed it to prosper by fostering entrepreneurship and the creation of capital and wealth.

A 100-Day Agenda

To maintain this tradition and fulfill your campaign promise, President-elect Clinton, you should take certain actions within your Administration's first 100 days:

Action 1: Urge Congress to ratify the North American Free Trade Agreement.

The United States, Canada, and Mexico began negotiations in the summer of 1991 to create the North American Free Trade Area (NAFTA). The negotiations were completed in August 1992, and the agreement was signed on December 17 by the leaders of each country. This agreement now must be submitted to Congress for ratification. NAFTA will build on the existing U.S.-Canada free trade area, which became law on January 1, 1989, and it will create the world's largest market, with some 360 million people and a total economic output of more than $6 trillion. The NAFTA countries thus will have a gross domestic product some 25 percent larger than the European Community.

The NAFTA will offer cheaper goods to Americans, increased access to Mexico for American exports, and it will make U.S. exports more affordable in the rest of the world. It also will create jobs for Americans supplying an expanding Mexican economy, while reducing illegal immigration to the U.S. as Mexicans find more jobs in their own country. And NAFTA will serve as a model for similar agreements with other Latin American countries.

Despite these clear advantages—the kind of benefits that always accompany free trade and that were well understood in Europe as these countries opened their borders to trade—there are protectionists within your own party and in Congress who will pressure you to renegotiate the agreement. What they really want is no agreement at all; telling Ottawa and Mexico City that

1 *Direction of Trade Statistics Yearbook: 1992* (Washington, D.C.: The International Monetary Fund, 1992), p. 3.

they must make new concessions will cause the pact to unravel. By all means discuss new agreements concerning side-issues such as the environment, but meanwhile press Congress to ratify the NAFTA agreement. Other discussions should be on a separate track and should not be allowed to derail an historic trade agreement.

Action 2: Conclude the General Agreement on Tariffs and Trade talks.

The current round of GATT, which started in Punte del Este, Uruguay, in 1986, has collapsed several times. But the world is now on the verge of a sweeping new agreement. The so-called Uruguay GATT round deals with a host of important world trade issues—including protection of intellectual property, foreign investment, subsidies, the sale of services, and agriculture—that would create vast new opportunities for U.S. firms. Success in the Uruguay Round could mean as much as a $200 billion annual increase in global business activity. U.S. Trade Representative Carla Hills estimates that a successful GATT agreement could expand global economic output by as much as $4 trillion by the year 2000. America stands to gain a great deal from a successful agreement. American companies selling their products overseas, for example, will receive greater patent and trademark protection. They will also be able to enter new markets in services previously closed to them, thanks to reduced trade barriers. Failure to complete the round, on the other hand, risks a worldwide binge of protectionism. There are many stumbling blocks, from the European Community's resistance to the removal of most agriculture subsidies, to America's reluctance to liberalize trade in textiles and services. Upon taking office, Mr. Clinton, you should work diligently to nail down a successful agreement.

Action 3: Commence free trade area negotiations with Chile.

Framework agreements already exist between the United States and every Central and South American country. In these framework agreements, the trade representatives of the respective countries give formal notice of their intentions to enter free trade area negotiations at some future date. The agreements also set out the general procedures for such a move. As such, they are the first step to negotiating a free trade area. President Bush's 1989 Enterprise for the Americas Initiative calls for incorporating every country from Canada to the southern cone of South America into one free trade area. The foundation for this goal already has been laid.

Because of its impressive economic reforms, you should immediately seek an agreement with Chile. Chile has the freest market in South America. The property of both Chileans and foreigners is protected. Further, there is little opposition to more open trade with Chile from American labor unions, farmers, and environmentalists.

Thus, Mr. Clinton, within 100 days of taking office, you should notify Congress of your intention to begin negotiations with Chile and set a date for the first trade meeting.

Action 4: Seek from Congress an extension of fast-track trade negotiating authority.

Fast-track negotiating authority allows the President to negotiate an agreement and then submit it to Congress for a simple yes or no vote. It prevents Congress from amending or changing any part of the agreement. This allows the President to negotiate in good faith with other countries. It also means that it is more difficult for interest groups to derail a carefully balanced agreement.

Mr. Clinton, the current fast-track authority ends on May 31, 1993. Thus you should notify Congress of your wish to extend fast-track in order to negotiate future free trade areas.

LONG-TERM POLICIES

While your Administration pursues its policies for the first 100 days, you should begin to develop a trade strategy for the next four years. In this strategy, you should launch several actions to improve the international competitiveness of U.S.-owned firms and to increase prospects in the U.S. and abroad:

Action 5: Seek free trade areas with Eastern European and Asian countries.

The former communist countries of Eastern Europe and the former Soviet Union are restructuring their economies, replacing collapsed socialist systems with the core institutions and policies needed to achieve free markets. Political and economic freedom in these countries not only is in America's national security interest, but in its economic interest because prosperous and free Eastern European economies will mean customers for American-made goods as well as new products for American buyers.

In order for the countries of Eastern Europe to succeed in their economic transformation, they must have access to foreign goods and markets. The most obvious new market would be the European Community. But because of industry-group pressure within the Community, the EC is dragging its feet in allowing access to goods from Eastern Europe.

President-elect Clinton, you have a great opportunity to help these former communist countries by showing the European Community that it will lose markets if it does not open its borders to goods from Eastern Europe and the U.S. You can do this by announcing your intention to negotiate free trade areas with any of the former communist countries of Eastern Europe that establish stable governments and institute free market reforms.

Moreover, America has an opportunity to issue a similar challenge to Japan. Singapore, South Korea, and Taiwan in the past have inquired about free trade agreements with the U.S. You should ask your trade representative to establish trade framework agreements with these and other Asian countries as a prelude to establishing free trade agreements. Such agreements will give the U.S. greater leverage against Japan, taking markets from that country if it does not liberalize its trade. And by pursuing this policy, you can prevent the possible formation of an Asian trade bloc that could keep out U.S. goods.

Action 6: Eliminate costly U.S. regulations that impede American firms.

You pointed out correctly in your campaign that regulation during the Bush Administration grew faster than at virtually any time since World War II. The amount of money that the federal government spends annually to administer its regulatory laws has increased from $9.6 billion in 1988 to $11.3 billion in 1992. These regulations reduce the gross national product by between $881 billion and $1.656 trillion each year, or between $8,388 and $17,134 per household.[2] These regulations act like a tax on the U.S. economy. They raise prices paid by U.S. consumers and lower wages in the U.S. But in addition, they make American companies less competitive abroad.

U.S. antitrust laws are a classic example of regulations that reduce the international competitiveness of American firms. The Sherman Antitrust Act of 1890 and the Clayton Antitrust Act of 1914 were intended to prevent the domination of an industry by a firm or a group of firms.

2 William G Laffer III and Nancy Bord, "George Bush's Hidden Tax: The Explosion in Regulation," Heritage Foundation *Backgrounder* No. 905, July 10, 1992.

While there might have been a plausible argument for these laws in the late 1800s and early 1900s, the intense global competition of today has made these laws irrelevant. Even worse, in fact, these laws make it much more difficult for American firms to enter into joint production alliances to help them compete abroad. Other countries generally permit such alliances.

The antitrust laws are typical of the laws and regulations that reduce competition and innovation, and should be modified or scrapped. As President you should assemble a competitiveness task force to identify similar outdated laws that should be amended or abolished by Congress and regulations you can end by executive decision. This task force also should undertake a study of the economic impact of each new U.S. regulation and recommend appropriate revisions to the White House.

Action 7: Reform outdated U.S. trade laws.

In addition to the trade implications of general laws and rules, many U.S. trade laws said to protect American businesses from alleged unfair foreign trade practices in fact are used to prevent fair trade by foreign companies. This penalizes American consumers by denying them affordable access to foreign goods. It also seriously hinders the ability of American companies to compete by using foreign components—in some cases the trade laws jeopardize whole industries.

America's antidumping laws are an example. These laws are meant to prevent products manufactured overseas from being sold in the U.S. at "unfair" prices below their production cost. Yet the antidumping laws are confusing and arbitrary, and in many instances allow American firms to secure punitive tariffs against competing importers where no unfair trade practices are involved. This laws drives up the costs of imported components used by other American enterprises, making their products less competitive in world markets. As a result, American consumers pay higher prices for both imported and domestically produced goods, and American workers find fewer employment opportunities in less competitive American firms.[3]

In some extreme cases, U.S. antidumping laws are responsible for the relocation overseas of an entire U.S.-based industry. Take the 1991 federal government ruling on flat panel display screens used in America's growing laptop computer industry. At that time, much of the assembly and manufacturing of the various components was undertaken in the U.S. Yet Japanese companies produced the best screens in the world. In order for American companies to produce a competitive laptop computer, they imported the screens from Japan and assembled the computers in the U.S. American firms still had the edge in virtually every other major component of the computer, including the processor and software.

Yet the U.S. government imposed a 65 percent tariff on Japanese screens in order to give the tiny U.S. screen industry a chance to emerge. The result: American companies making laptop computers were forced to move production overseas to escape the prohibitive tariff. Apple Computer, Compaq Computer, and International Business Machines were forced to close their manufacturing plants in the U.S., throw Americans out of work, and open up plants in foreign countries that do not have the tariff on the displays.[4]

3 Bryan T. Johnson, "A Guide to Antidumping Laws: America's Unfair Trade Practice," Heritage Foundation *Backgrounder* No. 906, July 21, 1992.

4 Bryan T. Johnson, "Managed Trade: Making America Less Competitive," Heritage Foundation *Backgrounder* No. 778, July 25, 1990.

These and other examples demonstrate how many of America's trade laws actually do more harm than good. You should develop legislation to amend or abolish these laws, to give American companies a greater chance to compete.

Action 8: Avoid policies that seek to "manage" international trade.

Elements of the managed trade approach—for example, subsidies—appeared quite often in your campaign speeches. Managed trade usually refers to a policy of setting target levels of certain imports and exports, and actively regulating trade and international investment in an effort to enhance the performance of the U.S. economy. But although trade management has been tried many times by both the American government and governments overseas, in most cases these policies were failures. Most of the purported success stories actually were due to other factors.[5]

You should resist pressures from some of your advisors and supporters on Capitol Hill to institute managed trade policies, rather allowing American consumers and manufacturers to determine the shape of U.S. trade. Moreover, you should work to eliminate existing managed trade policies that already harm American consumers. Among these policies are quotas and other limits on imports, demands for guaranteed shares of sales in another country's market, government subsidies, and national industrial and trade planning. Trade restrictions and policies already cost the American consumer an estimated $80 billion a year in higher prices and lost jobs.[6] If you are to be serious about creating jobs in the U.S., Mr. Clinton, you will not attempt to micromanage trade.

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5 *Ibid.*
6 James Bovard, "The Myth of Fair Trade," Cato Institute *Policy Analysis* No. 164, November 1, 1991, p. 2.