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EDITORIALS/OPINION

The Protectionist Menace, and How to Resist It

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NEW HAVEN, Connecticut — While anxieties about a global financial crisis continue to preoccupy Wall Street and Washington, another big shoe may soon drop — a destructive wave of protectionism. This one could have even more lasting impact than a major contraction of credit.

After all, money moves in response to market signals, and U-turns are common occurrences. But protectionism requires government action, and it is therefore a much slower process and more difficult to reverse.

And if firms are cut off from markets and are forced to restructure their staffs and logistical operations, and if carefully negotiated trade agreements come undone, restoring the status quo ante could take a decade.

The trends are ominous. This year the volume of world trade is likely to grow by only 4 to 5 percent, half of the 1997 rate. The IMF's downward revision of global growth expected for the coming year (from 4.5 percent a year ago to 2 percent now) portends dramatically decreasing demand for the world's goods and services.

In the five hardest hit Southeast Asian countries, imports have been reduced by about $100 billion in the last two years. China has canceled or postponed aircraft orders from Boeing. Ford and General Motors are idling plants in the Brazil-Argentina corridor. British Petroleum has announced a go-slow approach to Russia.

Meanwhile, from Tokyo to Jakarta, currencies are being devalued, setting the stage for a big invasion of Western markets with low-cost imports. In the last year, South Korea's export volume has shot up by 30 percent, Thailand's by 15 percent. The impact on U.S. and European markets will be even move severe if China lets the yuan sink and the Brazilian real buckles under mounting speculative pressure.

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In the past, America has been the market of last resort. But how long can it play this role? Growth is slowing, the manufacturing sector is shrinking, unemployment is inching up, retail sales are dropping, and business confidence is weakening.

This year the U.S. trade deficit will widen to about $250 billion, approximately twice as much as last year — and could knock off 2 percent of GDP growth. The steel industry has filed a broad anti-dumping suit against overseas suppliers; Midwestern farmers have obstructed trucks from Canada carrying cheap grain and livestock; unfair trade petitions to the Commerce Department from all industries are now running 60 percent higher than last year.

Ordinarily, the administration could point to booming sales abroad and the American jobs they support to justify a laissez-faire policy. But U.S. exports are growing at only about 5 to 6 percent, half the rate of the last few years. U.S. exports to Japan have swung from a growth rate of 4 percent from 1993 to 1996 to a drop of 3 percent in 1997.

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The political environment is not good. President Bill Clinton needs protectionist-leaning Democrats to save his job. In Europe the triumph of social democrats in Britain, France and now Germany ensures a search for a more interventionist "third way" between unbridled free markets and socialism.

The danger is not so much a 1930s Smoot Hawley-type tariff but a slow erosion of trade liberalization by a thousand small setbacks, or even a return to major government intervention in trade. A pattern is emerging.

China recently revised its laws on foreign joint ventures, thereby slowing foreign investments by telecom firms. Not long ago, Malaysia imposed capital controls, causing European and American electronics firms to think hard before entering the market. It may seem far-fetched today, but if economic conditions continue to deteriorate we should not rule out a widespread return to government-guided industrial policies, including price-stabilizing cartels.

WHAT can be done to stop a potential protectionist juggernaut? As always, an awful lot hinges on the United States. Unless it continues to import at increasing levels, the trading system will be in grave danger. But Congress and the American people must be convinced that trade will continue to have net benefits for American society.

The president ought to articulate a bold vision about future goals beyond the current financial crisis. Without a big idea to act as a beacon, the backsliding will be much worse than it would otherwise be.

A future plan could center around a broad new set of trade negotiations after the next presidential election — the Millennium Round. Preparation could begin now to deal with everything from further reductions in industrial and agricultural tariffs to electronic commerce.

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Next, higher priority must be given now to expanding U.S. trade with Europe, the only region besides the United States which is growing, and to encouraging the European Union to work with America to prevent the entire trading system from deteriorating.

Today, two-way trade and investment between America and Europe amounts to $1.5 trillion. This could be substantially expanded as Europe deregulates and as the euro facilitates a wave or restructuring all over the Continent, providing openings for competitive U.S. firms.

For its part, Europe's chronic trade surplus makes it imperative that it mount special efforts to further open its market to the emerging economies. A special trade negotiation between the United States and the EU should be considered to cover highly advanced trade issues from privacy on the Internet, to trade in genetically engineered products, to common approaches to antitrust issues — all setting a framework for issues that will soon be on the global agenda.

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Third, Washington cannot give up on Tokyo, even though the Japanese market remains comatose. Right now, American companies have an unprecedented opportunity to set up shop by acquisition or otherwise. Substantial U.S. investment, long missing in Japan, would result in added U.S. exports of components and services to new Japanese-based American subsidiaries.

At some point, also, a combination of economic stimulus and bank restructuring will lead to a resumption in Japanese growth. When that happens, the Japanese government is likely to engage in large-scale procurement of equipment and services, and American firms should be positioned to get their fair share of the expanding market for everything from computers to construction services.

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Fourth, emerging markets may be down and out now, but there are many strong developing-country firms that would be buying if only credit were available. The U.S. Export-Import Bank, together with its counterparts in the Group of Seven, should be dramatically expanding trade credit to those worthy companies so that they can import. A start is the big package created for Brazil.

Washington will have to bank heavily on the World Trade Organization. It needs to be ruthless in pursuing legal remedies against unfair trade practices, including other nations' backtracking on commitments they have already made. The WTO is one of the few international bodies with legal procedures that have teeth. In the last five years, the United States has initiated 35 formal complaints, and its record as plaintiff is 17-1, with many more cases settled favorably out of court. These next few years promise to give us much more opportunity to be active in defending past trade agreements.

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Finally, a meeting of trade ministers from all WTO members is due to take place next fall in Washington to set a future agenda. In light of the urgency, the meeting ought to be moved up to January and attended also by finance ministers and heads of state.

None of this may be feasible in the face of the powerful political and economic head winds. But who would dare say we shouldn't try?

The writer, dean of the Yale School of Management, was undersecretary of commerce for international trade in the first Clinton administration. He contributed this comment to the International Herald Tribune.