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“The World Economy after London G20: Recovery, Trade, Finance, and Governance”

Let me say what an honour it is to be here at Yonsei with this very distinguished panel. I know that I'm learning along with you. It's very interesting to hear the comments here about the G20 meeting, sitting as we do in the US.

I agree with the observation that there has been a major shift of power from the Atlantic to the Pacific and that the Bretton Woods organisations need to be altered to reflect that shift. The fact that we now have leaders of the G20 economies that constitute 80% of global output meeting together is extraordinarily important. The G7 without China, the fastest growing economy in the world with 1.3 billion people, and without South Korea, the world's seventh largest economy and a democracy, clearly illustrates the need for change. But that wasn't my topic.

As you know the economic forecast has been extraordinarily pessimistic; we have had very little optimistic news recently. IMF reports show that global growth is grinding to a halt. In recent reports, Industrial production is down 24%, 19% in South Korea, 12% in the European Union, and 10% in the United States. The World Trade Organisation announced last month that the world trade will fall 9%. For decades since WWII trade has outpaced global growth and has driven it. This is an extraordinary drop and brings me to my topic: world trade.

Now some say that until we fix the economic mess that we're in we cannot deal with trade issues. I would argue instead that trade is actually a tool to help us deal with the economic problems that we confront. A very good economist, Dr. Gary Hufbauer from the Peterson Institute of Economics, has calculated that the global economy has grown by trillions of dollars as a result of growth of World Trade since WWII. Just taking the United States alone, he calculates that our economy is one trillion dollars richer per year as a result of opening markets over the past six decades. And that means that the median family income in the United States today is about 9500 dollars higher than it would have been had we not opened our markets.

It is a clear to me that the adverse economic affects that result restricting trade are far too great and must be avoided.

Most people don't recognise the role that trade plays in employment. In South Korea and the United States, for example, small and medium sized enterprises are the big exporters not in terms of quantity but in terms of numbers. In the United States 97% of our exporters are small and medium sized businesses. They export about a third of what we export, a little less than that (28%). But 97% of them supply a foreign market. These smaller enterprises are the backbone of job creation around the world. Most Americans don't know that jobs connected to international trade, services, and investment pay more than other jobs in the economy ---in the United States it is about 15 percent more.

So how do you foster the trade which generates the economic growth which is so needed today? I would start by approving the bilateral agreement that our two governments have negotiated. The US-Korea Free Trade Agreement has been pending for far too long. Once in force that

agreement will give our producers and our workers more opportunity as it reduces tariffs and opens up markets.

Second, we should work very hard to bring the Doha Development Round to a successful conclusion. The Round involves 154 economies that need the gains that would result from opening global markets. In addition new opportunities can be developed by integrating those poorer countries into our global trade regime that now are fenced off from its benefits. The sector most important to these poorer countries is agriculture because the majority of people in poor countries make their living off the soil. Yet the restrictions on trade in agriculture are five times higher than the restrictions on manufactured goods, so poor countries face an uphill battle. They also face an uphill battle with respect to some of their manufactured goods, which are usually cheap products; mainly heavy glass, cheap shoes and various low level manufactured products. Tariffs are very high on such products. In the United States for example – we have a 49% tariff on cheap sneakers. We don't make cheap sneakers. We don't protect any jobs by having that tariff, but we do hurt poor countries. And that is an example from the United States; one of the more open trading economies in the world.

I could duplicate that story a hundredfold, more like ten thousand-fold if I were to look around the globe at these kinds of restrictions. I think of large and mainly Muslim countries like Bangladesh, Indonesia and Pakistan. Each of those countries has a hundred million people living below the United Nations poverty line. Their opportunities for their growth are restricted by the barriers wealthier countries erect to their trade. The gross discrimination that occurs by restricting their opportunities to trade is an important reason to push forward to conclude the Doha Round.

Last year Bangladesh paid the United States 120 million dollars more in tariffs on 3 billion dollars worth of sales to the U.S. than France did on 37 billion dollars. Now that works out to be about 15 % tariff on Bangladesh and less than 1% on France. So when your friends say to you “why does Doha matter? Tell them that we need to integrate these large and poor countries into the global trading system to help them climb out of poverty.

We know that we all will be far better off economically if we do integrate them. We know it will work to our advantage as well because of what happened in our first global trade negotiation involving 23 nations in 1947 under the Generally Accepted Tariffs and Trade agreement known as GATT. We then opened our markets to countries that were devastated by WWII. It was an act of enlightened self-interest. By opening up our markets we helped to create new markets to which we could sell. Since 1947 we have had 8 Rounds of global talks that have gradually reduced trade barriers and created the global economy of the size that it is today.

Another economist, Dr. William Klein, an economist at the Centre for Global Development, has calculated that a 1% increase in trade in poor countries creates a 1% decrease in poverty in those countries. He proves that not only does trade benefit advanced countries -- you are here because of such advantages - - trade also alleviates poverty and it increases our security. If you are one of the unemployed in a poor country, under the age of 25, with no hope, no chance to escape from poverty, you are less likely to be a good global citizen.

So the lesson that we learned in negotiating market openings from that first GATT is that by opening markets we built a golden super highway to prosperity. Now with the Doha Round we have the opportunity, not only to stay on that on that highway to greater prosperity, but also to alleviate poverty and to increase our security.

I just can't overstress the importance of the Doha Round to every single nation no matter what its status may be. I

I need to add that it not sufficient to say to poor countries “our government will eliminate barriers to your product.” That market opening would not be as good as doing it globally, because 70% of the trade that poor countries have is with other poor countries. So if the United States opens its markets to textiles from Bangladesh, but Bangladesh trades mostly with India and other countries in its region, without a market opening agreement that is global, Bangladesh doesn’t get the benefit of barrier-free trade throughout the world where most of its trade occurs... What we need to do is to push the global opening of trade to all 154 WTO members so that we enlarge their opportunities.

You might ask me then “what is lacking?” and I would put it in two words, political will. It’s not that we can’t see the path through the thicket to a successful Doha outcome. It is that we need the political will to take the path. Populism and nationalism grow when economies turn sour. We earlier had mention of the G20 Summit in DC, which occurred on November 15th. There was a solemn pledge made by all of the 20 leaders in attendance (and mind you these nations make up 80% of the global economy) that they, would not raise trade and investment restrictions between the time they left Washington DC and they met again. Within a few weeks seventeen out of the twenty breached that solemn pledge, and I am sad to say that with the *Buy American* provisions in our stimulus package, the United States is not exempt from my criticism.

The second G20 meeting just occurred on April 22nd London. The pledge was again made and so far the World Bank tells me that nine (nearly half) have proposed some additional trade restrictions And this is very sad. So what we need to do is to i encourage our leaders to resist the neo-mercantilism, beggar thy neighbour policies that are becoming so popular.

I don’t think that governments can do it on their own. I think they need help from businesses, from universities, from think tanks, from citizens. They need to hear more often what the advantages of trade are. We need to tell them that open markets generate not just the opportunity to sell one more length of pipe or one more bushel of wheat. Trade does do these things. But it also helps small-medium sized enterprises that are the backbone of job creation to thrive; and by alleviating poverty, it helps to enhance our security at a very dangerous time. And so I look to all of you to put your voices behind efforts to open markets because this is a tool that can make a difference in your lives right now. And I thank you for inviting me here.