

Global Dealings

Young Patriots Essay Contest

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February 2017

As the world continues to scale to greater heights in globalization with each new idea, invention, and innovation, there arises a demand for policies through which the exchange of such capital can be achieved with greater ease and efficiency. In the United States, it is evident that economic success begins with the nurturing of collaboration between nations. Thus, international free trade ought to be America's highest priority if it aims to benefit its own society and those around the world.

Before inspecting the U.S.'s potential paths in international commerce strategy, let us first examine history, throughout which many have discovered the consequences of restricting free trade. Just a few decades into its founding, the U.S. began to toy with isolationism and protectionism: under President Thomas Jefferson's administration during the Napoleonic Wars, Congress passed the Embargo Act of 1807, which effectively prohibited trade between U.S. vessels and any foreign port. Although it aimed to protect American commerce, U.S. agricultural and shipping-related industries crumbled, smuggling grew rampant, unemployment rose along with the prices of domestic goods, while merchants rallied for free trade and protested government prohibitions.

Despite Congress' repeal of this act a mere two years later, the lesson did not seem to have been learned when 1930's Smoot-Hawley Tariff raised import taxes to protect American businesses, in turn causing the total volume of world trade to fall from a total value of \$3 billion to \$1 billion and U.S. Real National Income to fall by 36 percent, making this act one of the major contributors to the Great Depression (Phalan, Yazigi, & Rustici). Thus, to not repeat history, "America must not succumb to the lure of old-fashioned protectionism: there will

always be those who would rather erect barriers to foreign goods and services than improve their own ability to compete" (Choate & Linger).

In order to improve one's ability to compete in the global marketplace, one must "reduce [one's] real costs" (Harberger). Trade liberalization facilitates this process: If one nation can produce a good at a lower opportunity cost than another, it has a comparative advantage in the production of that good. Thus, in the macro-economy, each country's specialization in the good for which it holds a comparative advantage and subsequent trade with other countries would allow for the production of more goods and maximized efficiency in the global economy. Later results of such trade are "higher standards of living for [all] countries, assuming they could trade freely" (Siciliano). Thus, it is evident that free trade is key in advancement of the economy of not only the United States, but of every nation.

Within the past few decades, the globalization that has permeated our societies has found great correlation with economic development throughout the world. Although quantifying globalization is no simple task, the *A.T. Kearney/Foreign Policy Magazine Globalization Index™* attempts to apply a method of measuring this phenomenon along with economic integration by evaluating "the level of personal contact across national borders..., international phone calls, and cross-border remittances" in addition to tracking "the movement of goods and services [and money]" throughout the world (Yester). All of these "indicators of global integration have shown remarkable growth," particularly within the past three decades (Yester). Nonetheless, even without such quantitative measures, there is no doubt that globalization has

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witnessed massive development in a relatively short amount of time. With instant communication possible between individuals from the most distant of lands and the speed at which tasks are performed accelerating at incredible rates, globalization has never been more apparent.

Throughout this period in which globalization hit its streak, economic trends demonstrate unprecedented growth in global and national wealth as well. Data from the World Bank shows that in 1960 trade accounted for less than 25 percent of the global GDP, and half a century later in 2011, trade accounted for nearly 61 percent of the world's total GDP, an increase of 36 percentage points. If we look at the impact of trade on the United States' GDP, there is a similar trend, as evidenced by the 22 percentage point increase — from 9 percent to 31 percent — in this value. There is also a presence of growth, albeit small, in the rate at which GDP increases, supporting Harberger's conclusion that "international trade raises the level of GDP" and that, moreover, "liberalization produces a modest spurt of growth as the economy goes from a lower to higher level of efficiency." Moreover, in 1960, global merchandise exports tallied up to a value of \$125 billion; within the past few years, this number landed just shy of \$19 trillion. This demonstrates the "strong correlation between successful growth episodes and the rate of export growth" (Harberger). In summation, there is a clear parallel visible between the sudden skyrocketing of interconnectedness throughout the world and the economic strength and soundness of its nations. Therefore, it would be wise for America to enter international free trade agreements that would result in great returns in the industrial and social prosperity of its own citizens and those of the world.

Now, as Pat Choate and Juyne Linger state in their article, "we face the prospect of continuing economic loss until American business and political leaders recognize the fundamental differences between U.S. and foreign economic systems." There is thus presented the argument that the

General Agreement on Tariffs and Trade (GATT) is "outdated" due to its Anglo-American-economy-based terms. If current regulations of such trade are too heavily centered on ancient American thought, does this not give the United States greater incentive to engage in liberalized trade? Through its negotiations in commercial diplomacy, the United States would garner greater knowledge about the economic systems of its neighbors and develop trade agreements that best serve the interests of both sides. If one views international trade upon the premise that all nations, no matter how different, can find ways to work together in collaboration, then is it evident that with considerable thought and evaluation, mutually-beneficial and more efficient, tailored trade policies can be constructed.

Finally, in order to best see the benefits that the implementation of liberalized trade can have on the United States and the world, it is essential to look at developing countries. Throughout the period between 1950 and 2000, which Harberger states to be "the greatest half-century in human history in terms of the improvement of economic conditions and the betterment of life for the great majority of people," in which "per capita income in developing countries grew an average of 2.3 percent annually." Therefore, it is evident that trade and globalization give many societies the opportunity to develop economically and spread prosperity. Moreover, through partaking in international free trade, the United States will maintain its powerful ability to extend its influence to other nations and propel global interconnectedness.

In summation, international free trade agreements have only proven to serve the United States well throughout the past decades. As globalization continues to gather strength and economies continue to prosper, liberalized commerce will pave the path toward greater interconnectedness between nations, compassion and understanding of different points of views, and ideas and innovation will spread throughout the globe.

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