

**Flagship Seminar | International Trade: What Everyone Needs to Know**

**Centre for Social and Economic Progress (CSEP)**

New Delhi

Thursday, December 17, 2020

CSEP Research Foundation

Second Floor, No. 6, Dr Jose P Rizal Marg

Chanakyapuri, New Delhi 110021 India

Ph: 011 2415 7600

## **Panellists**

**Anne Krueger** - Senior Research Professor, International Economics, Johns Hopkins School of Advanced International Studies

**Ernesto Zedillo** - Director, Centre for the Study of Globalization, Yale University

**Montek Singh Ahluwalia** - Distinguished Visiting Professor, Stern School of Management, New York University

**Douglas Irwin** - John French Professor, Economics, Dartmouth College

Watch the event video here: <https://www.youtube.com/watch?v=1bhasRRk8Gg>

*The following is an edited transcript from the event.*

**Rakesh Mohan:** Let me welcome everyone joining this, what I might call, First Flagship Seminar of the Center for Social Economic Progress, formerly Brookings India. We're delighted to have this seminar on the new book, International Trade: What Everyone Needs to Know, by professor Anne Krueger, who is a senior research professor of International Economics at the Johns Hopkins School of Advanced International Studies. After almost 70 years of increasingly open trade, the system has come under threat in recent years. So, Anne Krueger's book is really timely and provides a very comprehensive introduction to the complexities of international trade; its past, present and hopefully, future. It explores contemporary issues such as Brexit and its implications, developments with North Atlantic free trade agreement, functions of the World Trade Organization and of course, China's emerging role as a biggest player in international trade. With the ongoing trade tensions among the leading economic powers in the world, the weakening of the WTO, the signing of the Regional Comprehensive Economic Partnership in Asia, the presidential transition in the United States, and of course, India's own ambivalence towards trade that's been some somewhat reversal of policy over the last 25 years.

So, this is a very timely discussion on a very timely book, and we're really delighted that Anne has decided to do this with us as introduction to her book. I will introduce each of the panelists; Professor Anne Krueger, President Ernesto Zedillo, Mr. Montek Singh Ahluwalia, and Professor Doug Irwin in the beginning, so that I don't interrupt the conversation in the middle. So, here goes. Let me start of course, with Anne. As I mentioned, she is currently the senior research professor of International Economics at the Johns Hopkins School of Advanced International Studies, and emeritus professor at Stanford university. She's also a past president of the American Economic Association, and of course, she's been known widely in the fields of macroeconomics, trade and economic development. She served as the World Bank chief economist from 1982 to 1986, and as the first deputy managing director of International Monetary Fund from 2001 to 2006.

Anne has been really among the foremost proponents of the benefits of free trade. When she joined the World Bank as chief economist, 1982, she was instrumental in bringing about a sea change in the World Bank's stance in development policy as a whole. Many of us who were young economists at that time, didn't particularly like what she was doing then, but I think most of us have changed our minds ever since and saw her wisdom although leaving with a little bit of a lag. She has had a long-standing interest in the development and state policy or India's development policy. As it happens, her first published paper after her PhD, was indeed on Indian Trade Policy. I hadn't known this until I started doing research now on her to give this introduction. And amazing also, she received a PhD at the age of 24; that's the age at which most people start working on their PhDs. On a personal note, we've had a long association especially off the Indian Economic Reforms that began in 1991. She started the annual Indian Conference at Stanford in 1998, which went on for almost 20 years. She's also been a regular attendee and supporter of the NCIR, NBER, [indistinct- 03:56] Neemrana conference through its existence, until it reached its maturity at 21 years last year.

As it happens, Anne, this weekend would have been the Neemrana conference had it continued. So, Anne, just think you're delivering the opening address at Neemrana now. We are delighted of course, that you have given CSEP; the Center for Social Economic Progress, formerly Brookings India, the opportunity to hold this first flagship seminar based on your new book. In some way, this is really a coming-out party, and so, thank you very much for allowing us to do this. The book really is a total force documenting in plain English. And I think that's one of the biggest strengths of the book; plain English, the benefits of open trade, all the ills that arise from protectionism and of course, as I mentioned earlier, it is indeed very timely given the knock that global trade has suffered the past decade, or so, and which has now been exacerbated by the COVID pandemic. I do hope that the book will be instrumental in reminding us of some of the basic tenets of economics. And all the students who're watching this Zoom seminar, I encourage you to get the book, because it will give you the best background you can get in International Trade.

We are of course, very honored to have the presence of Professor Ernesto Zedillo. Let me start by saying he is currently the Professor of Economics, and Director of the Center of the Study of Globalization at Yale University. And he served as the president of Mexico from 1994 to 2000, during which time, his economic policies enabled Mexico to get out of an economic crisis and regain growth. Prior to winning the Mexican presidency, he served in various senior positions in the central bank and as minister in the government. He has since been a leading voice in globalization, particularly, on his impact on relations between developed and developing countries. He's a member of G30 and the board of directors at Peterson Institute for International Economics. He is also a distinguished practitioner the Blavatnik School of Government at Oxford University. I was fortunate to have the opportunity of making his acquaintance while I was teaching at Yale in the last couple of years. Ernesto, since you've been president of Mexico, I decided to give myself the title of president of the Center for Social Economic Progress. So, you can also call me president now.

Montek Singh Ahluwalia has been a leading figure of course, in Indian Economic Reforms from the early 1980s onwards. In some sense, we've been co-conspirators in economic reforms for the last 35 years or so. He served of course, as deputy chairman, Planning Commission of India from 2004 to 2014, and as finance secretary in the government of India from 1992 to 1998. He was also the first director of the independent evaluation office of the International Monetary Fund from 2001 to 2004. The governor of India honored him with the award of Padma Vibhushan; India's second highest civil award for public service. And along with Prime Minister, Dr. Manmohan Singh, he has been the leading voice and designer of the economic reform process that began in 1991.

In the context of today's discussion, he was commerce secretary in 1991 and he began the process of Indian Trade Liberalization in that position. And as finance secretary in subsequent years, he continued the process of reducing Indian trade tariffs in a gradual fashion, and that in some sense, is a model for that kind of reform in the sense that it was a major trade liberalization that was done gradually and without much disruption to Indian industry. His role and policy is described in his book, *Backstage: The Story Behind India's Growth Years*. I have a major announcement, which is that CSEP is delighted to announce, that Montek has accepted

our offer to be distinguished fellow at CSEP. So, welcome Montek, to the CSEP family and we hope to have more co-conspiratorial activities as we've had in the last 35 years but from a different perch.

Lastly, but not at least of course, my friend, Doug Irwin. The John French Professor of Economics at Dartmouth College. Non-resident senior fellow at the Peterson Institute for International Economics, and research associate at the National Bureau of Economic Research. He's a leading authority in trade policy in United States, and has worked on trade policy issues as one of the staff of President Ronald Reagan's Council of Economic Advisers. His most recent books include, *Clashing Over Commerce: A History of US Trade Policy*, published a couple of years ago. And another one, *Free Trade Under Fire*, published 2015. I'm not recounting all your other books you've written. I was fortunate to make his acquaintance in 2011 when he was visiting Yale University, and we happened to have adjacent offices. We have kept in touch ever since and I've been constantly been in awe with impressive scholarship.

So, we have about an hour and a half for this webinar, including the time that I've already taken. May I request and lead off to introduce the key features of the book followed by President Zedillo, Montek and Doug Irwin, in that order. Anne, you can perhaps, take 15 to 20 minutes and then, the discussions could take around 10 minutes each. I've already sent each of you some suggested issues that you might want to discuss in the present times; I will not take more time, except maybe very brief sort of prods to set you off in each case. We do have much to discuss, I've already repeated it in some sense, the retreat from free trade, expectations from the newest administration, the impact of ASEP and India's withdrawal from it. The future of WTO and the multilateral rules-based trading system. We will also have some questions from the audience that have been curated, and I hope that we will have time to take at least, some of them. May I say that I do know that we are fortunate to have a very distinguished audience, so, a very warm welcome to all in the audience. This webinar is being recorded. So, Anne, may I start you off firstly by asking you, what made you write this book at this time? What do you think are some key messages of importance at the current time with the election of the US president? And I think, let me just leave it at that and leave you to go further from that, so I don't take more time.

**Anne Krueger:** Thank you, Rakesh. Thank you very much for having me and congratulations on the inauguration of the center, I think it's going to be an important contribution not only to India but to the world and I wish you all the best. What made me write this book? Well, that's an interesting question, and I won't give you the answer that you thought which I'm sure I'll get to in a minute, actually. But all my years of doing various things, and I did some practical things along the way as well as teaching, was I was frustrated by the comments that journalists, in particular, made, but also, members of the lay public and others. If free trade is so good, why can't they have an economist persuade people that it's good? How come are you economists always preach that you pay no attention to what's going on? And then, that of course, is the book. So, my motive for starting the book was to indeed, do my best to see if I could just lay out what the case is, that it's not a good idea to seek protection no matter what

your goals are, practically; there's almost no exception to that. And the more you look at the people who have tried the exceptions, the more you conclude that it's a bad idea.

So, that was my original motivation. And I signed under contract to do the book in, guess what, the middle of 2016. Well, in November of that year, as you know, we had an election which turned US trade policy upside down. And as that happened of course, I'd slightly changed the focus of the book; it's still on what everyone needs to know and it's still of course, very much an argument as to how various trade policies work and don't work, but on the other hand, it takes much more time than it did, on some of the mistakes that have been made in the world economy in the past four years and indeed, ways in which it needs to be remedied, that these are mistakes that I think, are tragic for the world if they continue and I hope will change. I think that if there are themes that come out of a look at trade policy, there are several. The first, and I think most important is, a trade is one of those things that you cannot very successfully do bilaterally. In the sense that, if you make a trade agreement with one country, between two countries and leave the rest of the world out, you are discriminating against the rest of the world. And in so doing, that's a problem.

Now, if instead you say, okay we're going to do, for example, have a tariff on the goods coming in from China, as the US has done, one of the things that happens is that, goods that were made in the US are made somewhere else where they don't pay the tariff. The second thing that happens is that, insofar as it is imported in the United States, much of it comes in through countries that make it that are not subject to the tariff. So, in the case of the steel tariffs that President Trump imposed, one of the things that happened is, and I'll come back to this, the steel-using industries were hurt, the steel industry itself wasn't helped much. But on top of that, now, there's a complaint that, well, look what Vietnam is doing. It's producing all the steel and sending it to the US, China's sending things to Vietnam, etc. because there are third countries in the world that basically could do the same things very often. And picking on one country does not hurt that country as much as you think.

But in addition, it helps others and doesn't achieve what you want. So, multilateralism is important and that brings out the importance of the WTO, the agreements there, and I'll come back to that in a minute. The second thing that I think is almost equally important, is the degree to which various protection measures, which some of which are tried and perfectly good intentions to do something good for some portion of the population. Very often, if not almost always, do not succeed in doing what they're doing, almost always, if not always, is a better way of doing it. And on top of that, they often have side effects that are totally ignored in the process of doing them, in such a way that others are hurt more than the ones that are helped, and I'll come back again to that in a minute. So, I would have said that the first things we need to learn, are a little bit about why trade is good, and that's because of course, it enables everybody to use their resources most efficiently.

Just as we trade as people, I trade as an economist. I have a very big balance of payments deficit with my grocer and I have a very big health payment surplus with my university, because of course, I'm trading that. But it isn't only my grocer with whom I have the deficit, I have a deficit with my [indistinct- 15:08] just about everybody; my gas station, my clothing, like a department store, and so on and so forth, and there's nothing wrong with this. And my

department store has never said, "Well, do you have an overall balance of trade?" they don't care. They basically take my business and they're very happy to have it. And I basically, am very happy to have deficits and surpluses. And once again, you can't look at things bilaterally, you need to look at them multilaterally and so, that's a major lesson of, I think, anybody internationally but it came to me particularly strongly because I was doing the book at the time when the Trump administration was indeed, ignoring many of these lessons.

So, trade is beneficial almost at all times; I think there are exceptions. One exception right now I think, is that, it seems to me that trying to say that, okay we will let the market determine the allocation of vaccines, is probably a mistake. It's probably a mistake because I think it will discriminate against poor countries, I think we'll just have everybody bidding up the price of the vaccine against each other, and while I certainly believe that the companies that have invested and get gambled on getting the vaccine quickly deserve a reward, I'm quite sure we don't need the price to go as high as it would go if we left it all the way that way. In the longer run, it has to go back to market to give incentives for more innovation, for more discoveries and so on. But in the short run, I think there should be some degree of rationing. But again, it has to be worldwide or we will just see people going around the edges to other countries. So, I think it's a multilateral problem, not a bilateral one, but it's an important one and it's one that I hope measures will be taken on, very quickly.

On the other hand, I would advocate doing that for 2021, but announcing in advance that those measures would be removed and we would move back to market pricing come 2022, I would not leave them there for the everybody to be happy with them and to oppose their removal when they are removed. Okay, that said, with trade being beneficial, why do people oppose it? That's the hard part. And that's what I really don't know the answer to. I went through what I could, not only from the US, but from other countries, seems to me that there's some belief that protection brings jobs. And that to me, is entirely wrong on all kinds of levels. It's wrong in all kinds of levels because basically, the determinants of the level of employment are macroeconomic, they certainly include savings and investment. And normally, the current account balance is the difference between gross domestic savings and gross domestic investment. And if your country is spending on consumption more than it is saving, and then having investment worse than saving, the result is going to be a current account deficit because it will make up the need and consumption by importing.

And in that sense, you're looking at jobs because you think that that could do something on the macro side, I think it's a mistake. But mostly, the key mistake, and here's where I'll come to the steel industry, not because it's necessarily the most important, although it is important, because I think it has many of the lessons that we all need in all countries on trade policy. As I think everybody knows, and one of the President Trump's early actions was to declare steel an industry needed for national security and he therefore, imposed a 25% tariff on steel imports from, in this case, all countries including Canada and Mexico which were in free trade agreements, but which he then had to reverse. So, later on, I think in May 2019, if I remember correctly, is when he took off the tariffs on those two countries. But as of now, the 25% tariff on steel, and by the way, 10% on aluminum, is still in effect. The argument given was that it

was needed for national security, which seemed a little bit dubious anyway, why? Well, first off, because the steel industry in the US was operating at a less than 80 percent of capacity.

Secondly, because most of steel imports which were about 20% of total utilization, came from South Korea, from Mexico and from Canada. 2% came from China, which was the only country that was not regarded as a reasonably good friend of the United States, which indeed was exporting steel to the US. So, two percent of imports of the total steel consumption came from China. So, we put out a 25% tariff. Well, what happened? The South Koreans were furious because they basically said, "Look we have a free trade agreement, we negotiated this in part because of our steel industry" which was true, because they were, I think, third largest exporter to the US. So, what happened? Well, the Trump administration decided that, well, for South Korea, that wasn't fair. So, what did they do? They put on quotas on steel imports from South Korea, although the South Koreans had to agree that they would keep steel exports to the US at 70% of their average level through the past three years.

Okay, so now, they got import quotas on steel. You think that's easy? Well, it turned out that there were 59 different kinds of steel that were imported. So, you have to have quotas of course, on all 59 kinds of steel. But then, some steel companies with lesser steel users, complained that the kind of steel they wanted what wasn't available in the US, because the capacity just wasn't there for specialized deals of various kinds. What about, okay, we'll set up a bureau in the Department of Commerce, which will indeed accept applications for waivers from indeed, I let you import the kind of steel you need. You apply for this, when they applied, they had to list seven, I think, it was different dimensions of steel that had to be on each license. So, one company, if it imported four different kinds of 104 had to fill out four of these forms every year. And each form had to have the dimensions of the steel product, the tensile strength of the steel product, the chemical composition of the steel product, the finish of the steel product, I forgot, there are several more but you get the general idea.

So, then they thought they could do this with 40 people in the Department of Commerce. And they guessed that they'd have maybe, 5,000 or so people applications for steel imports under these quota systems and so on and so forth. That's how many they had. They had 47,000 in the first six months. They promised everybody they'd have an answer to their request for import permission within, I think, it was three months. A year after they started, they had just cleared out the first two months backlog. Meanwhile, of course, the black market developed, steel users began complaining, some of them had to cut back production because they couldn't get their steel, others began shifting to overseas plants, etc. Now, the whole argument for this was national security, but much of the defense of it was made on the basis that it would create jobs. There is some argument as to whether any jobs were created in the steel industry or not. It is clear that it takes one tenth the number of workers today to produce a ton of steel in the US than it did in 1980; that's technical progress, that has nothing to do with imports.

But in addition, there are some imports, there's no doubt about it. But the best guesstimate is that, there's been very little change in steel employment. It depends which starting date exactly you take; do you take the date that the tariffs were announced, the day they took into effect, well, how long does it take steel to ship across, especially the pacific? And so on and so



forth. So, I don't want to argue about whether there were jobs created, but there weren't very many if any. It is estimated that there have already been some hundred thousand jobs lost in steel; that's a large number and there's no way that any increase in steel could possibly do it. So, the net effect of the steel tariff has been to lose jobs in the steel using sectors that use the steel that was produced in this country, and there was no gain. Was this a benefit for American security? I really find it very hard to believe, and I could give other examples, but you get the idea. Something that starts out thinking, okay, we'll now have more steelmaking capacity, you don't. In fact, what happened was, some of the steel companies in the US didn't take these, the plants that they had closed down because they were old ones that high costed inefficient. And they reopened them to produce the extra steel that was needed. So, the price of steel in the US shot up. And right now, by the way, the world price of steel is very high, but the price in the US is even higher because of the import tariffs, and so it goes.

The argument that trade-restrictions typically don't work, is much stronger and it seems to be the best defense for free trade; is not that free trade is the best of everything, it's just better than anything else. Kind of like, the defense of democracy, and I think it's right. Basically, when you try to, and especially if you try to protect an industry or industries, you're deprotecting somebody else and it hurts. And of course, while it's easy to protect steel, it's not easy to protect everything. In fact, you can't do it, because if you protect imports, you're deprotecting exports. And the second lesson is, how much exports are hurt when there is protection of imports. And they're hurt not only for the obvious reasons, but also because there's a lot of competition that is lost to your domestic producers. So, your domestic producers have a much more monopolistic market domestically because they know they're not competing against imports, and that changes things as well. So, there are a number of reasons, I'm going through some of the agricultural protection which seems to have the same kinds of effects. US agricultural protection has always been based on the small family farm and how we need to protect it, how did we protect it? Price supports.

Well, how much price support do you get? The difference between what the market price would be and the price it is. The price it is, is the differences paid for of course, by the government, so the farmers get their support price. The difficulty with that is, the amount the farmers get is a change in price, times the quantity they produce. Who gets more money? Certainly not the small farmers; the large ones. It doesn't make sense to do things that way, even if you want to help the farmers; it helps the big ones which is not normally what the whole protection idea is about. I could continue, but I don't want to take everybody else's time, so, let me just continue. I think in general, and I don't do much with this in the book, but I've got a chapter and a half about it. I think it's true that very few countries, if any, have ever successfully developed without having exports growing at least, as rapidly and usually, more rapidly, then, GDP is growing.

Part of the reason why is, when a new industry develops, it needs a larger market than can be domestically provided especially initially, and having an export market enables producers to plan longer term and not have to estimate so carefully, how much domestic demand will grow. That's being learned over and over in countries like South Korea and Taiwan, and so on. And even China, I think, has very much used the import-export link as part of its development

strategy as they were able to set up one industry and they could count on the imports that they couldn't yet produce, and they could count on exporting their excess production until they got to steel where they didn't produce too much. But pretty much, they got their surplus production to export and in so doing, were able to develop much faster, than they had to develop each market domestically. And had they had to do it domestically, they would have been confronted with many more state enterprises and private firms that would not have needed to compete and probably, would not have performed so well.

So, with all of that, it seems to me that the lessons are obvious. I have a chapter in the book on the World Trade Organization. Among the damaging things that the Trump administration has done, has been to reverse US policy on trade. I've always been kind of, proud of the US because after World War II, it did emerge victorious and prosperous. But instead of imposing reparations and penalizing countries, as happened after World War I, and after every other war I know anything about. What happened was, after World War II, the US took leadership in getting multilateral institutions available to handle global problems, one of which was the then, GATT, now, the WTO; World Trade Organization. It has 167 members, it is supposed to be the agreement, a treaty if you like, under which the rules of trade that prevent discrimination between countries but enable for businessmen in any country doing business with any other, to get national treatment in their markets. And otherwise, set rules that make trade easier and facilitate it and make trade policies more transparent for other countries. So, in all those regards, the WTO has been worthwhile, and of course, American prosperity, European prosperity, developing countries growth after World War II has been very much tied with the growth of exports, which grew about twice as fast as world GDP in the period from 1945 to 2000. Twice as fast. Exports were a leading growth sector for the world as a whole, which sounds silly, but isn't.

And at the same time, as they did that, they enabled many countries like South Korea and like, China to grow much more rapidly than they otherwise could. The Trump administration basically, didn't trust multilateral organizations, which took away not only US policy, which is a disaster for the US, but also, US leadership role which has been a disaster for I think, the world. In that connection, the WTO is seriously continuing to be impaired by virtue of having its dispute settlement mechanism paralyzed, because it has seven appointed judges, each of whom serves at a fixed term. The Trump administration refused to approve any new appointments. So, as of, I think, it was January last year, I forgot. Last year, at the end of the year, there were no judges left to settle the disputes. So, the dispute settlement mechanism which is not perfect, but which has done lots of good basically is not functioning well at the moment. There's no way that any penalties can be imposed on any country no matter what it does in the international system, which is a real tragedy.

Some famous disputes which otherwise might have caused great difficulty have been mediated; they're including Boeing Air Plus, including GMO, produce in the agricultural sector, and many others. So, I would argue that the WTO needs to be among the first things the Trump administration does, is to appoint some more judges, appoint perhaps or negotiate perhaps, a commission or something that could come up with some realistic expectations to modernize the WTO, which was attempted in the DOHA round which did not succeed. And to bring the

WTO back to the role that it needs to be playing, because it is the multilateral body for international trade. In my view, early on, the Trump administration needs to do lots of other things. I'm not optimistic that the administration –

**Rakesh:** You mean the Biden administration, not Trump.

**Anne:** Thank you.

**Rakesh:** I thought, so people don't get confused.

**Anne:** Anyway, the Biden administration, I hope, would begin easing tensions with China. I do not think the Chinese were angels, but neither has the United States been. And I think it would be far better to work with them in some trade agreements, than it is to simply slap on tariffs and do things like that. And then, issue demands, some of which, like, please reduce your [indistinct- 30:41], reduce your bilateral trade surplus; it doesn't make any sense. It can't be done even if the Chinese wanted to, because it has other things involved with it. So, I think there's a lot that can be done very quickly in the early days of the Biden administration. Reviving the US and getting it back into what was going to be the trans-pacific partnership is something that could be done, I hope, quite easily and that would be an important step that would indeed improve US trade prospects and at the same time, strengthen the world economy.

Right now, the other 11 who are going to be in the TPP have joined with Japan's leadership in an organization without the US, which means that in those free trade countries including Japan, imports from other free trade countries such as Australia come in duty-free and they do not come in duty-free from the United States, so, it's discrimination against the US. It doesn't make any sense. The same is true because the Japanese have a free trade agreement with the Europeans. So, European cars come into Japan duty-free, American cars do not. And that is a result of the President Trump's decision; this time, I do mean Trump, to withdraw from the US agreement to go into the trans-pacific partnership. There are lots more. In India's case, President Trump has withdrawn, as I understand it, a generalized system of preferences for India. It seems to me, that that was not a wise move and I could go on and on with many of those things. But as time is beginning to run out, I will quit and at this time, just by saying this: Somehow or another, it turns out that all of this stuff is complicated.

There are reasons it is complicated, but the trouble with that is, it makes it very hard to communicate what is going so wrong. Not enough to say we have steel quotas. There are 59 different kinds of steel. The forms you fill out are long and complicated. There all kinds of problems with them, no matter how you do it. So basically, I would argue that we all need to be working harder, not necessarily to say free trade is good, but to be looking at what is happening and why it is so very costly. And that, as I learned, the hard way is hard work. Thank you very much.

**Rakesh:** Thank you very much, Anne, for the very detailed description of the ills that have arisen from particularly, the tariff increases on steel and aluminum by the United States, and the difficulties of actually enforcing these kinds of tariffs, and also, the QRs; the Quantitative Restrictions and the bureaucracy that then arises. We of course, in India are very familiar with

this. When I was the Minister of Industry, I actually used to sit on committees in the 1980s, which did these kinds of very detailed examination of applications from people for imports. So, what you described the US situation in the last four years, was very reminiscent of what we were up to for many many years. So, just going on from that, Ernesto, can we come to you? And let me just prompt you, maybe you can start off with what you expect from the revival of multilateralism in trade, revival of WTO and also, a particular question I did want to ask you was, why have, to my knowledge, no Latin American country has become a trade powerhouse in the last say, 20, 30 years, even after all the trade liberalization that Latin America did from its previous protectionist stance, which is not that different from India's in the previous years. But the Latin America was actually much faster than India on liberalization. But I'll leave the rest of that to you, Ernesto.

**Ernesto Zedillo:** Oh, thank you, Rakesh for the invitation, and I will probably deal with your question on Latin America at the end or on the Q and A. But for now, let me say how pleased I am to be part of this presentation of a book written by a dear friend, and a most admired intellectual leader. I'm also pleased to do it in the very good company of Montek and Doug, who are also two other admired friends and thinkers. When I use the words, intellectual leader, for Anne, I don't do it lightly. Keynes famously said that, "Practical men who believe themselves to be quite exempt from intellectual influence, are usually the slaves of some defunct economists". Well, in this case, I feel entitled to correct Master Keynes, because practical men like me and many others like Montek, I guess, who have played a role in more than a few countries; countries to open up our economies don't feel shy to admit that we did it to a meaningful extent under the intellectual influence of an economist who was at the time, and is happily to this day, very much alive. That economist happens to be Anne Krueger.

Following in the footsteps of the pioneering studies of little [indistinct- 35:56], and along with also, my friend, Jadish Bhagwati, gave us a classic study that came to question, in a fundamental way, the soundness of protectionism to propel development while validating robustly, the pertinence and effectiveness of expo-oriented policies. Anne's research became widely known and used by development practitioners, not least, because not too long after the publication of her, now classic, 1978 study, she became, as you mentioned, the chief economist at the World Bank where she continued to argue in favor of open trade regimes as a key means for development. In the process, she unmasked those in favor of protectionism as our rights rent seekers, using the elegant and powerful arguments she had put forward in her other classic contribution published in the American Economic Review in 1974. It is somehow ironic that the contributions of Anne Krueger, that have been so influential in many developing and emerging countries, contributions that to a great extent, extend not only from concepts advanced by classical economies of now, rich countries, but also from the latter's successful experiences seem to have been ignored in recent years that has been already commented here precisely in some of those countries; most consequentially, in the United States and dramatically so, by the Trump administration.

It is regrettable that Trump and his trade policy enablers for sure, did not read, and if they did, did not understand the arguments contained in Anne's past work and would have bypassed the book presented today. In fact, Anne's new book has the enormous virtue of recovering

the propositions she submitted and proved with sound research, 42 years ago. Enriching them with astute observations on what has happened since then, and expressed a US stress, Rakesh, in a way accessible to the non-specialist reader. It is fortunate and timely as you said, Rakesh, that Anne explains essential concepts of international economics and development while managing to allude to the infamous trade policies of the Trump administration. After all, it is a fact that the Trump government has literally vandalized the international rules-based system and its key multilateral institutions. Although, practically, all of Trump's attacks on the international system can be soundly proven to be against the national interests of the US itself, this result is strikingly evident in the case of his trade policy as a quick review can show. One, the Trump administration aimed to correct the trade and current account deficit that for many years, has been a feature of the American economy.

The wrong-headed approach, and this is very well explained by Anne in the book and the presentation she just did, to pursue this equally wrong-headed goal was to engage aggressively one-by-one, the country's main trade partners and force deals supposedly to fix the respective imbalances. This approach, which not only ignores the basic insights stemming from the essential notions of comparative advantage in smaller version and the basic national income identity as Anne explained, but also, conceives of international trade as a barely cost zero sum gain, let the US government to use self-defeating protectionism to try to fix the external imbalance. The result, the US trade deficit a few months ago, reached its highest level in 14 years, despite the dramatic slowdown in the American and the global economy. Two, on day three of his administration as Anne reminded, Trump withdrew the US from the TPP without providing any economic or geopolitical justification for the move. That this action went against the interests of the United States is clear from the fact that frankly, the TPP was agreed and constructed to satisfy the interests and demands as well as the standards and practices of the US to a much greater extent than any previous trade agreement ever subscribed by the US. The result, as Anne said, Trump's decision caused the US to incur not only on a meaningful economic cost, but also a substantial loss in geopolitical influence in a critical part of the world.

To add insult to injury to the US, the 11 remaining partners, slightly modified the TPP and signed it as a new agreement in March 2018. Three, based on a set of fallacious arguments, Trump forced Mexico and Canada to renegotiate NAFTA. Although his negotiators did not get all the rather, crazy demands they maintained throughout most of the talks, they did get an agreement, now called, USMCA. This, for the most part, by diminishing the region's competitiveness in global markets, is inferior to the old NAFTA. The result, with the USMCA, both Mexico and Canada lost, but so did the US as well. Four, the Trump administration by blocking the appointment, as Anne explained, of new members of the appellate body of the DSU mechanism has crippled the WTO. To justify his animosity towards the WTO, Trump has argued that his country loses almost all lawsuits and that the system has been terrible for the US. I am quoting Trump. The facts, the US is the most frequent user of the dispute settlement system, having brought to it more cases than China and the European Union combined, and the US has a higher proportion of cases; 91% than the rest of the complainants. No serious analysis has ever produced evidence of bias against the United States. Five, initiating unjustified trade wars has been the most egregious trade policy by the Trump administration.

It did show against the US friendly trade partners like Canada, Mexico, Brazil and the European countries by imposing tariffs arbitrarily on imports of products such as steel and aluminum, as Anne explained, preposterously on the grounds that they constitute a threat to the US national security. The illegality of this action was flagrant as opined immediately by many experts and recently already, by a WTO review panel. Still, the unwarranted and abusive treatment of its friendly trade partners, fails in comparison to the trade aggressiveness displayed by the US government against China. Step by step, although, rather quickly, the Trump administration set off an authentic trade war practically without precedent since the 1930s. Regretfully but not surprisingly, China responded in kind. Every serious legal economic analysis of the arguments provided by the US government to justify its massive trade attacks on China have found such justification questionable in the best of cases if not, blatantly, illegal. The result, the US has not won the trade war initiated by Trump.

There are never winners in this kind of episodes and it has been left to the American consumers, farmers and taxpayers to suffer the folly of Trump's acute trade bellicosity against China. Of course, the Biden government must proceed decisively to repair the most egregious misdeeds of the outgoing US government, as already been committed by the president-elect. Observing the US return to the international agreements and institutions repudiated by Mr. Trump, will be not only a source of relief to the rest of the world, but also a firm step towards the restoration of the country's leadership and respectability. However, great responsibility rests with others. This is certainly the case for China. For example, even for somebody like me who believes based on serious analysis of the evidence, that the Trump trade actions against China have been illegal, unjustified and actually harmful toward countries, it will also be up to China to work hard to repair the damage. The new US government will need good economic and political arguments to leave behind Trump's wrong-headed trade war.

China must consider putting on the table, serious offers, not only on market access, but also, much stronger disciplines for other aspects of the economic interaction between the two countries that traditionally have been cause of irritation and recently, an excuse of confrontation. Would this be too much to expect from the Chinese government? Not really. Because doing what it takes to normalize its economic relationship with the US and the rest of the world, will be in China's own interest. If in doubt, the Chinese leaders should buy Anne's book and read it carefully. Thank you, Rakesh.

**Rakesh:** Thank you, Ernesto. Montek, do you need a prompt for me or we can just go ahead?

**Montek Singh Ahluwalia:** No, thanks. Thank you very much, Rakesh, and let me join Ernesto in congratulating Anne, really a pleasure and being on this panel and really a pleasure reading your book. For readers, I would really urge them to read the book, because I found that it was terrific, because it's not just a book on trade theory, it's a terrific handbook to understand trade policy issues. So, I found that even people who are not economists, [indistinct- 47:31] and this number is actually increasing rapidly. They would find it very useful to get Anne's book, not only because it's very beautifully written, but also, it's organized in a way where every subsection actually answers a question.

So, I think, people who are interested in trade and have questions; either questions that worry them, or questions that should worry them, the book provides a very easy way of getting to what they need to know. Now, needless to say, like you, Rakesh and Ernesto, I've been a great admirer of the work that Anne has done, and also, the contributions. I mean, actually as somebody you pointed out, Rakesh, that Anne's first paper after her PhD was on Indian trade and industrial policy, and I happened to have read it and talked to her about it, and it's amazing. She went into the details of how the system works to understand the incredible microeconomic distortions that our system of controls and permissions, sort of, introduced. I mean, India's policies are described in those days, a protectionist. But they weren't just protectionist in the sense of having a high uniform tariff, they actually had what was effectively a unit specific set of tariffs, which would be virtually impossible to defend. And of course, when she said this as she presented this work, I mean, Indians being argumentative, she came across a lot of arguments.

And really, it wasn't for 20 years until India's policies began to reflect that thinking, and it's a great compliment from our point of view to Anne to retain her affection for India through what must have been professionally, a very frustrating 20 years. So, thank you, Anne, and thank you for writing the book, and I really do recommend non-economists also, to read it. In fact, I think, trade negotiators. Certainly, our trade negotiators should read the book, because most trade negotiators are so preoccupied with the correctness or whatever they are arguing and they don't have the time to look at theory. But Anne's book will introduce them to all the subtleties of trade. Now, Rakesh, in what you guided me, you wanted to guide me, you said, "say something about the book in India; how do we react to the issue?" We went down the trade liberalization route and actually did well on there, with a bit of lags and so on, I mean, there was a long period when India grew rapidly. This rapid growth was actually accompanied by a significant rise in the exports to GDP ratio, so, it wasn't just growth that was taking place, there was, kind of, a structural shift within GDP towards imports of goods and services; very significant. But somehow, we appear to be stepping back.

So, let me comment on that first. Are we stepping back? I think we clearly are, because in the last three or four years, there's been a rise in tariffs, I think, over a hundred tariff rates have been raised. You could still say that in terms of percentage of tariff lines, it's small but it's disturbing, because it happens at a time when the international climate seems to also be turning against trade. I mean, I don't know how far this is simply the consequence of the Trump administration's positions, and now that we have the Biden administration coming in, maybe the mood will change, I hope so. But I'm not 100% sure of that, because the protectionist urge is really quite widespread, at least in the western world. And I think that we like to think that we are actually not very much influenced by the fashion of the day, but the truth is, people are influenced. And for a very long time, we've been in the position of saying that, look here, there's a lot of work being done on this and you quote them, Anne Krueger and [indistinct- 51:50] and say, "Trust me, this is the way to go". And I would say that in the last several years, even predating the Trump administration, in the United States, and maybe even in Europe, general support for the view that trade liberalization is good, has been weakened.

And so, notions of fair trade have crept in, notions of trade has distributional consequences have crept in, and all of this and many people for example, tended to dismiss the idea that developing countries should lower tariffs to a uniform level so, I think this created, I mean, I won't mention names, but I think, if you look into it, it's quite clear that there was a growing perception that this is so. And this is thrown back at anyone who argues, you can't anymore say that look here, we are behaving exceptionally badly. Everybody else is on the same side. Now, they say, look, that's not true, I mean, there seems to be a change of mood. So, I think that's one factor, which I think is important. But the second is also, that you know, although we did very well in terms of growth, and funnily enough, we also did very well in terms of reducing poverty. So, by all the statistics, the number of people who were absolute poor went down for the first time in India, the way they had in China, and that looked quite good. But I think there was a growing feeling that we failed to create. A lot of high quality, high-wage, non-agricultural jobs in the manufacturing sector.

Actually, we did create a lot of high quality, high value jobs in the services sector. But somehow, there's a prejudice against services, I mean, it seems as if the focus in India is very much on manufacturing and we've all glorified it by saying, look we're too poor a country not to have more rapid growth of manufacturing. I think that's probably true. But where I think we're missing out in India, it's not because we liberalized trade, it's because we didn't do all the things that are needed in order for manufacturing to do well. Whereas, the reason we did well in services, is having taken the necessary steps on trade policy, which really meant junking the protectionist approach to computers; you could bring in whatever computer you want, all you needed to do was provide access to telecommunications and services would be instantly competitive. That's not the case when it comes to goods. I think this whole idea that we have labor, therefore we need labor-intensive exports, that's fine, but labor and capital are not the only inputs. Infrastructure is also an input, the nature of logistics and the kind of procedures you've got, you can say, is a kind of institutional input. And I think we did not have the sorts of infrastructure, logistics, trade facilitation, procedures and all kinds of what are now, somewhat dismissingly called, ease of doing business, that that concept has got a bit discredited, so, I don't feel like using it.

But there is something underlying it which is true, and that made it very, very difficult for smaller, if you like, and labor-intensive sector to do well. And clearly, the labor laws which was always brought up, was a big issue. I mean, I think the fact that there can't be any doubt that India's labor laws have been one of the most restrictive. And frankly, even when we did the reforms, we were aware of it, and Dr Manmohan Singh very often said that, yes, that's very important but we must get to 10% growth and then, we'll take care of the labor side. And there's some logic there, that let's get the growth going before you tackle labor laws. But if you don't have the kind of infrastructure you need, if you don't have flexible labor laws, if you don't have all sorts of logistical kind of corrections and procedural improvements, which would make you competitive in being able to bring goods to the western market, you're not going to do well in labor-intensive exports. And I think that, this was kind of, known to us, I think we should have acted on it earlier; we didn't. And to my mind, that's the principal reason why we didn't benefit.



Now frankly, it is a huge loss because with China moving out of this area naturally, because their wages are going up, their space is being taken by Bangladesh and Vietnam and not by India. Had we been in a position to do that, then I think there would not have been the sort of backlash that we've got, because there would have been a sense that manufacturing is providing the growth of employment needed in order to take up more of the labor that's inevitably going to be released from agriculture. So, this I think, has been one of the reasons why it's been easy for many people to argue that the solution lies in protection. Now, of course, they should read Anne's book, because it's quite clear that the solution doesn't lie in protection. There will be any number of unintended consequences of protection. And I think one of the problems which highlighted the dilemma, I think the government is actually aware of the fact that an unrelenting return or an unapologetic return to protectionism, doesn't make sense.

So, many of our ministers, when asked this question, the new slogan is, [indistinct- 57:50], which is, "self-reliant". But self-reliant is defined, they say, not that we're going to be closed off, but then, we're going to become strong, we can deal with the world on our own terms and we're going to integrate with global supply trains and actually become a more important participant in the global economy. Now, if that's so, I hugely welcome it. Because at least, it's not a simplistic kind of, get back to protectionism type of solution. But not enough attention is being paid to the fact that a policy of jacking up tariffs is simply not consistent with this objective. We're not going to become part of any global supply chain if you keep raising tariffs. Also, the raising of tariffs doesn't seem to be part of some general policy, which says that, look, these three areas are areas where, for the next 10 years or five years, they're temporarily jacking up tariffs and we're going to reduce them at this rate. It's a little more ad hoc, I mean, somebody who lobbies can actually get the tariff increase they want. I mean, most recently for example, in electronics, custom duties were raised, but more importantly, for large screen televisions; import was completely banned.

Now, I would have been a lot, I mean, I don't think we need to do this, but had we done it by saying, the customs duties on large screen televisions is being raised to something, that would have been much better than sort of, not allowing the import, which is equivalent to as high an import duty as you need to become competitive. I still don't think this is going back to the bad old days, because in the bad old days, we didn't allow domestic competition, we didn't allow domestic producers to expand; that's not happening. I mean some tariff walls are being set up. Some people think that it's attracting potential high-quality investment to do a bit of tariff jumping. And when they jump in, they'll realize what a nice bunch of people we are, and we'll start deepening their production lines, whatever, but I think the worst thing by the way, would be if we were to go back to the sort of, license control regime which appalled Anne in the first paper she wrote on this, way back in the 60s.

So far, that hasn't actually happened. So, that's one thing to feel a little pleased about. The other big puzzle is, why have we walked out of RCEP? I mean the Regional Comprehensive Economic Partnership. We've been negotiating it for some time, and the general impression was that, when the prime minister went to the ASEAN meeting in November, this thing was going to be signed. Many people thought that we're going to sign it. But actually, India opted

out; didn't sign it. And I think that this is only the result of substantial lobbying by domestic industry, not all of domestic industry but the smaller more inefficient industry, combined with the great fear of competition versus China. I mean, China is a part of RCEP, so, I think the feeling was that, look, we are happy to have a trade agreement with the ASEAN, but we can't have a free trade agreement that includes China. So, it's a little different. But you know, to my mind, it's a mistake. The RCEP agreement allows a very substantial adjustment period.

And when you talk to industry, they invariably say that, look, we know we can be competitive, but to be competitive, you've got to do A, B, C, D, and E. And personally, I think it would have been much better if the government had said, fine, so, let's set up a consultative mechanism and we will do A, B, C, D, and E in the next three years or the next four years or whatever it is, so that we can sign. But in fact, what has happened is that, we've let this be, technically. We haven't actually said we're not going to join. And I hope that India joins, I think our partners there have said that they are keeping it open so India can join. We should join as quickly as possible. But that's a signal that is again, not consistent with joining value chains. You know, one of the important points that Anne makes in her book, in one of the eight lessons which she lists at the end, one of them is that, multilateralism is the way to go. And I think that's absolutely right. But the problem is that, the rest of the world doesn't seem to be ready to go in for multilateralism.

And therefore, if the world is going to get fragmented into trading blocs, India has to make the decision; are we going to stay out or are we going to join? And to my mind, although it would be wonderful if you had a liberalized multilateral trading system, pending that, we better join some of these blocs. And East Asian bloc is a logical block for India to join. So, I think that's again, a big problem which we need to address. You know, I think the couple of other points –

**Rakesh:** I think maybe, I'll have to interrupt you so that –

**Montek:** Okay, no, fine. We're running out of time, so, we would come back. But, great book, Anne, and I do hope that people in India read it because it has a lot of relevance to issues that are currently being discussed. Thank you.

**Rakesh:** Thank you very much, Montek. All your remarks, I'm glad you focused at the end on RCEP because one of the issues I often raise is that, from all projections that one can see, most of global economic growth will indeed come from the RCEP area. Global economic growth, as well as trade growth. So, we are really counting ourselves out from the majority of economic growth and global trade by counting from ourselves out from RCEP. Doug, you've been waiting patiently. I'll just do one sentence or prompting, because I think I don't want to waste time. But one key question I do have is, [indistinct- 1:04:31] United States last year. Unfortunately, I went to United States just two months before Mr. Trump won, and left just two months before he lost. During that period of time, of bad trade policy, I was kind of, shocked that there wasn't as loud a protest from economists on his trade policies as I might have expected. A, do you agree with that? And B, if you agree with that, why? But you're obviously free to just do whatever comments you would like to make.

**Douglas Irwin:** Okay, I'll come to that question in a moment, but I do want to thank you, Rakesh for inviting me on this very distinguished panel. Al Herberger of the University of Chicago and UCLA, who I'm sure you all know, wrote a piece in the American Economic Review a number of years ago, where he spoke about the key to economic reform is a handful of heroes; whether it's defeating inflation, correcting fiscal accounts, opening up an economy, they're usually just a few key drivers of that reform process in any country. And it's a great honor for me to be among what I consider a handful of heroes, here on this panel, and the work that you've done globally and in your own countries. Ernesto gave a tremendous, eloquent opening argument for the power of ideas, and the role that Anne has played in changing views and educating all of us on the importance of trade policy and openness over the past 40 or 50 years.

He mentioned in addition to Jagdish Bhagwati, who's very important obviously in the Indian context and globally. Ian Little, [indistinct- 1:06:08], and one other name that I would throw into the works there is, Robert Baldwin. Two very important pieces that he did, I think, have informed Anne's work and is relevant to our discussion, and relevant for students to re-read today. Very short pieces, very simple, in plain English. One is the case against Infant Industry Protection in the JP 1969, which in just a few short pages, provides a devastating argument against Infant Industry Protection that so much had been written over the years. And I know Anne has followed that up with empirical work on how Infant Industry Protection hasn't worked out well. The second piece that he did is also a big theme of Anne's, The Inefficacy of Trade Policy; a lecture he gave at Princeton around 1980 or so, I think it's freely available on the web. That's one thing that really comes out in Anne's book, the inefficacy of trade policy in achieving the objectives that policy makers ostensibly want to pursue; whether it's national security, whether it's trying to protect labor, whether it's trying to help manufacturing overall. There may be merits in some of those objectives, but protectionism is not the way to achieve that. And Anne in her remarks today, and it's also in the book, very, I was going to say funny, but sort of, sadly funny, and then the US trying to create a License Raj in the steel sector.

And so, we haven't learned the lessons from India in that case. Let me just say a few words about this book. So, here's Anne's book. This is a remarkable book, because A, it's relatively short so, it's not intimidating. As you mentioned, Rakesh, it's written in plain English with no jargon, no complicated math or anything, but very clearly, very effectively, makes the case. One of the things I really liked about the book is it's so comprehensive. It covers every issue, even things that maybe when she was writing, weren't at the top of the agenda, but are today. So, there's a whole chapter on currency manipulation, which the Trump administration has just come out the treasury and just declared Vietnam to be a currency manipulator, and Switzerland. So, this is an issue that is with us today, and will be with us for some time. She covers it very well in the book. It also covers Brexit; another issue which is important. It covers the WTO, it covers regional trade agreements, it makes the positive case for free trade, and the negative case about why protection doesn't work. Because the case for free trade, really is a two-sided coin; there's reasons possibly why we think free trade is beneficial and good for economies, and then, there's also the other side, protectionism won't work or is counterproductive and harmful. That's a part of that case as well. She makes both sides of that.

As you mentioned also, Rakesh, in your remarks, what's nice about every chapter, which is very comprehensive coverage of topics, within each chapter, there are sub questions. And so basically, it's hard to not recommend this to any student that wants to get a good overview of all the issues that we're facing. The thing I would stress for students who when they read this, might think, well, this is deceptively simple. It's only because she has contributed so much to our understanding that it becomes deceptively simple, in terms of the logic of the argument. One of the themes of the book that she mentioned, that comes out in her remarks today, and in the book, is general equilibrium. Now, I'm not sure that word, you can find that in the book. But that's essential for how economists think about protection in the role of trade. Even if you don't say it explicitly, it's a general equilibrium point of view; you're thinking about the impact on other sectors.

So, if you protect the steel sector, the benefits and costs are not just within that sector, there's ramifications, there's ripple effects throughout the economy because there could be foreign retaliation, you're raising costs to downstream user industries, you need a broader view to really understand deeply, the impact of trade policy on the economy. And this comes out very well in the book, and it's not something that's immediately obvious to many people. And so, there's deep wisdom I found in the book. A lot of understanding behind the simplicity of the ease with which it's written and that one can understand it. Also, this idea of deprotecting. If you protect, you can't protect every sector of the economy. So, when you protect one sector, you're deprotecting other sectors of the economy. That's also an implicit general equilibrium logic that comes out in the book, and in her remarks today. The ramifications for other sectors. One of the prompts that you had sent me, Rakesh, was how should Indian students think about this book? Well, they should absolutely read the book, because it's a tour de force and covers everything. But there's another book of Anne's. After they've read that, they also have to read, and that's the Political Economy of Policy Reform in Developing Countries, which I hope you can see that and it's not too glaring.

This is, I believe, her alien lectures. And this talks in much more detail, about the difficulties and the obstacles that face policymakers in reforming economies in the developing world, in particular, but lessons that apply to all countries. Anne, in her remarks, said it's very difficult when you understand the case for free trade and the case against protection; why it is we still face resistance to this. And I have a few remarks on this. I think there are two reasons why there is resistance sometimes to the ideas of economists in the logic of open markets. One is that, clearly, there are going to be some domestic import competing interests, and it's not in their interest to have open trade, they benefit from keeping uh imports out. Of course, it's once again, their own narrow interests, it's not an economy-wide interest in favor of that. But you would still in many countries, the United States as well, will find resistance from certain sectors to more import liberalization; the steel sector being a classic case in United States. It could be vegetable producers in Florida or sugar growers in Florida.

She also has a chapter or section on sugar, which is very important in the US context, and that's always been around those sectoral interests, and we economists will try to make the argument that, well, we have to think about the national economic interest, the general economic interest. So, certainly, economic interests will oppose these things. The second one,

I think is alluded to many of the ideas that Montek and Ernesto brought up, and that's more of a general attitude. It's not a sectoral interest that would be resistant to opening up. It would be a subtle, sort of, nationalism, as Montek said, self-reliance, that sort of a principle that would be invoked to justify these measures that's not based on one particular economic interest, per se. And I think when we look in the US context, that has been very important explaining the Trump administration. When President Trump proposed so many of the tariffs that he has, on steel, on China, he wanted to do the automobiles as well, and he actually didn't do it, and he always as much as I think he wanted to do, because there was a lot of pressure and backlash against it.

But he was not reacting to this upsurge of protectionist pressure in the US being driven by private industries demanding that the White House do something to limit imports. That was not the case. That was the case in the US in the early 1980s, in the early Reagan administration, when we had a major recession with a very strong dollar, and we had a very large and growing trade deficit. Then, the auto industry, the steel industry, the textile industry, and so many others were approaching Capitol Hill and the president, saying, "We need help to get out of the economic difficulties we face". And President Reagan in that case, did sort of, step back and accommodate some of those protectionist pressures. That has not been the case during the Trump administration, instead, the president has led the charge for higher tariffs and more restriction on imports, often against the wishes and the desires of industry itself. The China tariffs, for example, there was no domestic industry saying, "We're being besieged by imports from China, protect us with high tariffs". This was something that came from the president and the US trade representatives to punish China for various unfair trade practices as they saw it. But once again, it did not reflect protectionist pressure in the US. The steel case, yes, the steel industry itself may have wanted that protection, but there's a lot of pressure from the downstream users to whittle that down, not have it, and there was a lot of opposition to it, and yet, it was being driven by the president.

This is sort of, the reverse argument of what we've seen, or the reverse of what we've seen mainly in the post-war period, whereas, presidents in the United States, have led towards more open trade, accommodating at certain times, protectionist pressures. Here, we have a president that's trying to withdraw the US from the world scene, and is not just accommodating protectionist pressures, but actually abetting them and inviting more anti-dumping and countervailing duties and inviting more petitions on national security grounds or others. I can only imagine the damage that would be done if he was a two-term president rather than one term president. So, I do think there's an opportunity now to heal and get back to where the US has been traditionally and historically. To get to your question, Rakesh, about opposition. Certainly, I have been very vocal, Anne has been very vocal, I see the people who have been arguing against the Trump administration's policies. So, I don't think that we have been silent. Now, most academic economists are busy doing their own research, and won't lift their eyes up from their desk to look at the broader scene and weigh in.

But I actually have been heartened by the opposition and the bad press in the United States to most of the trade policies pursued by the Trump administration. There have been many journalistic accounts of the cost of the steel tariffs on downstream user industries. And

documenting the lost jobs and the hardship caused by everything from beer keg producers, to the automobile producers; Ford motor company had to spend a billion dollars more on higher steel costs to produce cars, equipment manufactures. And then, when you combine that with the stories about the retaliation from China and from other trading partners regarding the steel tariffs, that have adversely affected the farm community in the United States and agricultural exports and the lost markets, I think there's been a lot of attention given to the downsides of the Trump administration by the popular press and by economists. And this, I think, one of the lessons or the takeaways now that we're in the final days of the Trump administration is that, we've had a tremendous civics lesson in the United States over the past four years. Not just about the importance and the strength of our democracy and our political institutions, but about trade policy.

You know, for many years, when Anne and I and others have been writing, we've been trying to beat back this idea that, well, protection won't work to achieve whatever objective you want. But those tariffs were always hypothetical, and so, the people who are proposing them could always say, "Well, we haven't tried it. We have to give it a go because it can work and will make America stronger". Well, we've just tried this in United States, and I think, the verdict is quite very clear it made America weaker and it harmed our economy. And therefore, future administrations, particularly, democratic ones, which in the past have been much more tempted with this idea of industrial policy and with using tariffs, it's been given a chance in the United States because it was tried by this republican president, and I think it has failed. And thinking back in terms of history, in 1930, congress passed the Smoot-Hawley Tariff, which not many of your audience may have heard of, of course, everyone in the panel has, where the US raised tariffs just as we were going into the great depression.

Now, whether or not the Smoot-Hawley Tariff had a great impact on the course of the great depression or not, I think it had a modest and negative impact of course, on the US economy. But regardless of what the facts were, the perception was that we imposed this tariff, it led to a trade war and we sank deeper into the great depression. And for more than 50 years, economists and other politicians in United States who championed open markets could say, we have to learn the lessons of the 1930s that trade wars were devastating for the world economy and don't work. And I think what's happened is, with the passage of time, that lesson has sort of been lost, and that memory, certainly the first-hand memory of the great depression has been lost, which animated so many politicians in United States to vote for more open markets. Now, we have vividly in mind, for a new generation, the costs of economic isolationism in terms of climate, in terms of the WTO, in terms of so many other agreements that the TPP, potentially, the Trump administration has pulled out of, so many lessons about the backlash that can occur when a country retreats from international engagement, and in particular, the cost of these protectionist policies.

So, I'm hopeful that we have this four-year experience, a very bad one, but one that will teach us some lessons that will last for some time to come in the United States, and perhaps, around the world, that protectionism does not pay, that there is immediate foreign retaliation just as there was in the aftermath of Smoot-Hawley, and that this will lead to a new appreciation of the benefits of open market and US international economic engagement. So, while I stop

there, and we can go to more Q and A, I guess, one last point I would make about is, why is it that I don't think the Trump administration's tariffs really gained a lot of traction? And that's because I do think the politics of trade policy have changed. So much trade in the United States now, is on intermediate goods. And what that means is that, that creates greater variety and lower costs for other manufacturers and other producers at home.

And so, they don't have an interest in restricting trade. So, global value chains and supply chains have really, not only stitched the world together, but I think, have created a coalition that's tough to break in terms of keeping markets open. So, I'm hopeful that will continue. And I guess there's a lesson there for India too, to the extent you can get engaged in these global value chain, it will help lock in some of those more open markets. Thank you very much.

**Rakesh:** Thank you very much, Doug, for all your remarks, and putting Anne's book very much in context of the history of so much of the work that has been done on trade in the last 50 years, and of course, coming to the current contemporary issues. Now, I have been a terrible time keeper, so, there's only less than 10 minutes left, actually, for this webinar. Really, the very passionate response from Ernesto and also from Montek, and Doug in all of these issues, particularly to do with the with the US stance on trade policy last few years. There's a new question, by the way, it's very interesting, it's come from a number of people, including Vinod Thomas, Masood Ahmed and a couple of others actually, is, the new movement that's going on to impose climate-related tariffs, also, concept of climate club which seems to be gathering ground. I wonder if Anne, you, or any of you would like to comment on that. I am assuming you know you should.

**Anne:** I can say something, it's hard to say. But what's clear is that, whenever there is some kind of a thing people want or the public thinks is a good thing, those who will think they will benefit by protection are going to seize on it and use it as an argument for whatever they want. In the case of the environment, it's particularly dangerous, because first off, we do want to do things for it. But the trouble is that if indeed for example, the Europeans impose higher carbon taxes than others, their carbon-using producers can legitimately, unfortunately, claim that they're disadvantaged and they need a compensating tariff on imports. Now, they can legitimately claim it, but they can also overestimate it and there could also be others who aren't necessarily so badly affected, [indistinct- 1:24:05] with the environmental stuff, as far as I'm concerned. It's not that it's wrong, per se, but how do you do it in a way that does not just enable all the protectionists to go and have a field day using it as a new argument for protection? And what makes it particularly worrisome to me in the United States, is very simple. Namely, the environmentalists and the labor unions have begun banding together to support environmental protection because of course, that gives you the streak that the protectionists are from one side and the other, and of course, the labor unions have never been known for their great concern for the environment.

**Rakesh:** [indistinct- 1:24:40] you want to comment on this issue? I'm sure you've come across this in all your activities.

**Ernesto:** Yes. I think I basically share Anne's opinion. I think the most, let's say, sophisticated justification that has been provided is by Bill Nordhaus. Bill Nordhaus starts by saying, well,

we do need a global agreement because mitigating climate change is a global public good. We need everybody on board so that eventually, we have globally carbon taxes, which is the right way to address this problem. You have to price the externality, you have to impose a Pigouvian tax, so that you change behavior and induce faster technological change that lead you to a situation in which we don't do what we are doing with climate. And he says actually, it will be sufficient to have a small tariff among the biggest players in this game, starting with this little club, and then, you will force everybody to come on board into this global alliance that will do the right thing. I think the argument is interesting. The problem is with what Anne is describing. Immediately protection is interesting, says, "ah", this is a modern argument to pursue my interest. And this, I have been telling our European friends, who are now talking of border adjustment taxes.

And I said, well, it may have some logic as a second best, by the way, this is not the first best; as a second best. But I think you are going to open the door to enormous political and economic pressures in favor of protectionism. So, please don't give up on the first best, I think we haven't tried enough internationally. And hopefully, with the new conditions, we will have that opportunity. But don't get the genie out of the bottle, because it can be extremely dangerous. I think we have to deliberate much more before we say, yes, the only way to go is this way. But we have to recognize that, yes, there are second best ideas; this is a second best idea, but I don't think we still have to give up on the first best idea.

**Rakesh:** Thank you. Another question that has come among others from Greg Ingram, actually, is this general issue of the impact of trade as is alleged, particularly, China, although he didn't mention China, he also didn't say deindustrialization, but that's what have been said by many deindustrialization impacts on labor employment, which led to a lot of the political change in the US towards the election of Trump and in other countries as well. Also, arguments by authors like, David Autor, who talked about the difficulty of adjustment in specific areas in the United States which got deindustrialized. And hence, some degree of justification for protection. I don't know who would like to lead; Doug or Anne or anyone.

**Anne:** I can say something. I'm sure there's others to say too. All of the research that I have read, and I haven't read all of it, because there's too much. But all the research I have read, concludes that more than 75% of the deindustrialization that has happened, has happened because of technical change and not because of trade. I mentioned the steel industry requiring 10 times as many workers in 1980 as it does now to produce steel. That's technical change, that isn't trade. Maybe competition from trade speeded it along, but that's not necessarily a bad thing. That said, at least in the United States, I think it can safely be argued that what Americans have done, doesn't quite make sense. And I have a chapter on this in the book, is to say we're going to have trade adjustment assistance for trade impacted workers. And it is certainly true that some towns and some cities are hit harder by the decline of their industries than others. The trouble with trade adjustment is that, if a company moves its factory from, let's say, Newark to some other place, as for example, the south, the north is impacted the same way, as if indeed the company closed in New England because of foreign competition.

Now, in fact, a lot of what's happening by way of companies moving is not international, it's domestic. Companies also lay off workers for other reasons; changes in demand, innovation,



which we've already talked about. Poor management occasionally, makes the firm go under. And yet, why do we want to say that we'll give more help to people who are impacted by trade? What I would argue in the United States is, we need to find more protection or more benefit, call it what you will, for people in towns where the town as a whole, has the negative impact from the closure of a large factory and a loss of a large part of its employment quickly. And that, I'm certainly for, and I think the correction has to be made at the level of all those who lose their jobs regardless of the reason. Providing, of course, is not malfeasance on their part or something, but if providing that is not it, why do we care whether a town in Utah is impacted because all of a sudden, people discovered that such and such a metal was dangerous? Or because instead, it was technical change or because it was trade. I don't think it matters. I think in either case, or in all three cases, the workers are as badly affected, and they ought to be treated equally. That's my answer.

**Rakesh:** Ernesto, you want to comment on this?

**Ernesto:** Well, you know, I just want to make a point about the use and the misuse of economic research, and I think this contribution by Autor, Hanson and others, which I think its excellent pieces of research have been abused and misused by other academics or people giving opinions. I think Doug emphasized the fact that Anne's book is really general equilibrium thinking. And I think it should be paid attention to this argument, because people take Autor's and Hanson's research, which is a very specific investigation on certain effects, in certain particular regions or as places in the United States. And from there, other authors like Roderick, have tried to generalize as an argument against free trade without seeing the general equilibrium effects of China's interaction and interdependence with the US economy.

So, I think that's why I liked so much when a Doug, let's say, unveil this aspect of answer reasoning and argument, you know? When you think about trade, you have to be thinking about general equilibrium effects. And more basically, I think we have to remind our American friends of the so-called smile curve. The us has been a great winner with technological change and the way in which production and trade has been reorganized in the world. Because the US has taken the best jobs available in modernity, and that's the smile curve, you know, prefabrication and post fabrication. So, you cannot look only at the lower part of the smile curve, look what has happened before fabrication and after fabrication. And this is general equilibrium argument that we should keep in mind every time somebody produces one of these smart particular equilibrium localized effects of trade study.

**Rakesh:** Thank you, Ernesto. Doug, will you just give a comment? And I have a question for Montek after that.

**Douglas:** Just a very quick word on this. You know, the China shock ended 10 years ago. And the most recent paper of Autor Dorn Hanson said that there's no impact of China on US jobs since 2010 or something like that. So, this is something in the past, I understand, I think most people understand that the 2000s were a very unusual period when China had enormous current account surplus. But the China shock also occurred when the US unemployment rate was declining. So, this is not sort of a generalized shock to the US economy that was raising unemployment. And that's one reason why it wasn't really noticed by policymakers at the

time, and there was no protectionist outbreak as a result of that. I think what's more interesting, is looking forward. China's working age population is going to be falling by tens of millions of people, because of aging in the one child policy.

So, we are going to have a negative China shock coming in the next 30 year or starting now, for the next 30 or 40 years. That's not going to bring jobs back in manufacturing because as Anne said, there's been so much technological change and we can produce so much more with fewer workers across manufacturing. So, the problem with protection is once again, as Anne has taught us is that, you cannot save the jobs of tomorrow by protecting the jobs of the past. And so, we shouldn't want more textile workers in the United States, we have to think about the adjustments coming forward, and I think artificial intelligence and so many other technological developments are going to be reshaping the workforce. Those are the things we ought to be preparing ourselves, and not trying to fight this China shock that happened 20 years ago, or so.

**Rakesh:** Thank you, Doug. One last question before we end, Montek, there's a one, actually from an anonymous attendee saying, look, the protection on cars from the auto industry, according to the questioner, succeeded greatly in terms of India being able to have a large car industry with lots of jobs upstream and downstream. Isn't that good evidence of protection succeeding?

**Montek:** I think the automobile industry, one can say that what happened there, it did lead to an expansion of automobile investment. There was a kind of, tariff jumping; people came in, many more modern producers came in and they developed through backward linkage, a whole lot of suppliers, and that made India competitive in this area. What it proves is that, if you have a structured approach which sort of, focuses on a particular area and you believe that some temporary advantage is necessary and you want to kind of, give it a chance, you could either do that through a production subsidy, which I think is what the government of India is now trying to do, or you could do it through this tariff route. And yes, it can lead, I mean, this is what many countries have done.

But I think that sort of thing cannot justify a sort of, a generalized recourse to protection, sort of, succumbing to whatever demands for protection come from whatever industry. And I think a lot of the people who argued the case for automobiles, simply argued it on the grounds that it was a sector that had a lot of backward linkages. And if you could bear the sort of, initial shock as it were soaking the Indian consumer, but at the same time, opening up so that lots more producers came in. It wasn't just protecting, in the old style, where you just had two domestic producers and they were sort of, simply raising prices. So, there was a combination of policies, which brought in foreign investment, brought in foreign technology, led to tariffs jumping, and then, led to a backward linkage with the suppliers. I guess if you are looking at it strictly in a trade theory perspective, you would say that it would be better to do the thing through subsidies; production subsidies, in other words.

I mean, that's what the Vivek Ramaswamy and Bhagwati kind of stuff would suggest. And you would say, well, all right, we can't do that quite, but we're going to do it this way in a limited way, etc. A case can be made. That's not the danger that we're seeing today. What we're

seeing is, a generalized belief that whenever a producer needs protection, he can argue for it. I mean Anne has a very good section, which I do recommend to people, that, why is the demand for protection politically irresistible in a democracy? And the basic reason for that, I think, is that the impact of protection is spread widely across people. The negative effects, that is, the unintended consequences of the deprotection are also, not only spread widely, but you don't actually know who's being discouraged, because they're not there yet. On the other hand, the people who seem to benefit are there and able to lobby strongly for their case. I mean, that's why whatever you're going to do ought to be guided by a somewhat, transparent trade policy. I mean, for example, I would say that if there's a certain sector where you believe there's a lot of learning by doing, where you believe the technology is very important and you want to subsidize something, you pick that and gave a sort of, structured subsidy to see how things go, maybe that might work.

I mean, after all, the US productivity is hugely supported by a lot of government implicit subsidies. I mean, for example, the internet, the research work done, the department of defense and others who do lots and lots of research, which builds basic technology. So, I think a case can be made that a new entrant needs to do something more than simply kind of, have the government do nothing and simply have low tariffs. But that has to be a very targeted effort looking at a particular sector and being very clear whether you're actually succeeding and not sort of, relapsing into old-fashioned protectionism.

**Rakesh:** So, in that sense, the new policy from the government of India on production-linked incentive is not such a bad idea.

**Montek:** Well, it's certainly not trade-distorting. The real problem with all these things is, have we factored in the fiscal cost? And the fiscal cost is five, six years down the road. I mean, look, as a general issue, when you talk about trade, you tend to say, look, if you liberalize trade, the growth rate will go up from whatever it is, five percent to eight percent. Politicians would like to look everybody in the eye and say, "your growth rate is going to be eight percent". Now, that's not realistic. Everybody is not going to get eight percent. I mean, if you're lucky, some are going to get less and some are going to get more. But it's quite possible that some are actually going to get less than what they're getting now, and that's the structural change and as Anne says, trade is not the only thing causing that structural change now, and particularly, for us. Technology might be the biggest thing that's disrupting structure, and we have to work out how we're going to handle that. Now, if we're going to compensate everybody who's hurt, that's going to be a huge fiscal drain also. So, doing that and putting in subsidies, well, you just got to do your sums; something has to give. I think, by the way, in this context, the one part, which I think has a certain resonance is that, the guys who control the new technology appear to be able to locate their profits in low tax jurisdictions.

So, there's a lot of complaints both from the US and Europe, and I think also, India, that companies that control technology, somehow escape taxation. So, the whole idea that you're going to get growth and you're going to get some feedback in terms of rising tax revenues, disappears. Now, this is something I mean, globally, OECD is working on things like base erosion and profit shifting, I think it's very important that we be part of that global understanding, and some global understanding is reached. Otherwise, if we get knee-jerk

reactions with every country finding his own way of tackling the problem, it will be an unmitigated mess. And investors will all say that this is anti-investment.

**Rakesh:** Thank you very much, Montek. We're already now, 15 minutes over time. I would have wanted a little more discussion on this particular issue, but I think that we have overstayed our welcome from the participants also. So, let me just say how privileged, really, we feel to have hosted this webinar on Anne's book. Anne, thank you very much for doing this labor of love on this book, really captures so much of your work over your professional life and for the benefit of all of us who have been following your work for a long time. Anne, this is really something to treasure. Thank you very much, Doug, for waking up early in the morning in the one-foot of snow, luckily that's not inside your house, and you're actually probably warmer inside your house and we are inside our houses. But thank you very much for your very, very wise remarks. As I said, I've always been in awe of your scholarship, and I hope you continue that way. President Zedillo, it's really an incredible honor for us to have you on this call, and it's very, very generous of you to give this time. Thank you so much. And Montek, of course, you're now one of us, so, I don't have to thank you, but actually, I will. So, thank you very much, Montek for taking out the time to do this at your opening debut with CSEP, and I hope we will have many more of such activities with you.

Let me just say to end, that I hope that if we can revisit this with four of you, maybe eight to 12 months down the line, when the vaccination has succeeded to a reasonable extent and the world does limp back to some degree of normality, we'll also have some sense of what the newest administration would have done by then, and we'll have better sense of where the multilateral system is going, hopefully, towards the end of next year. So, don't be surprised if you get another request from me within that time period. Thank you very much, everyone, and I must also thank my whole team, [indistinct- 1:44:25] and others in the team who have really worked very very hard to make this webinar possible. And I discovered it's not that as easy as it looks; a lot of work has to be done behind the scenes. And of course, our chief operations officer, [indistinct- 1:44:47] who guided a lot of this activity. Thank you all, and good night. And I'm sorry we went on too long, but it was too fascinating for me to interrupt any one of you. Thank you.