

# FREE TRADE ADVENTURES:

## 1960s TO TODAY

by John A. Metschan

THE WTO AND MANY OTHER trade agreements are harnessing people's energy and desires to make better lives both in the United States and around the world. During the course of my career as a marine and then a banker I was able to observe first hand the hardships of those left out of the global economy as well as the enormous benefits of the beginnings of free trade in developing nations.

My first exposure to the outside world came as a marine in Vietnam. In 1969, while I was still on active duty in the Marine Corps, I and my family were transferred to Taiwan on a two-

Kaohsiung was the salvaging of steel from ships bought from around the world. The hulks of ships littered the brown banks of Kaohsiung harbor. Gangs of workers cut them up and threw them into the furnaces of China Steel. It was a dangerous and polluting endeavor. Several times each year farmers closed the two lane highway to town because they had nowhere else to dry their rice harvest. Exhaust-belching farm equipment and very unfriendly four-legged beasts of burden moved produce along the main roads.

We drove the north-south "highway" only at considerable personal risk. Kamikaze trucks ruled the road, driven by men who were paid to maximize speed at any cost. They gave little attention to anyone's safety including their own.

We, however, were happy to pay very little for first quality handmade furniture and clothing as well as domestic help. Although the LPs and tapes we bought in the local shops didn't last very long, our library still contains many of the "pirated" bestsellers that we bought for a song.

During this period citizens of Taiwan did not question the ruling party or its leader, Chiang Kai-shek. Governmental affairs were not transparent, neither was the business of industry.

The country was under martial law and the police could roust private citizens in their homes at any hour of the day or night.

Authorities most frequently cited "security" as the reason because the dire threat of Communist China loomed just across the narrow Taiwan Straits.

After leaving active duty in 1971, I became a banker in Oregon. In 1980 I accepted a position as the Far East Representative for the First Interstate Bank of Oregon (now known as Wells Fargo Bank). We made our home in Hong Kong, the most prosperous and dynamic economy in Asia. I made my first business trip to Seoul, South Korea, barely a year after the assassination of President Park Chung-Hee, an army general who had staged a military coup in 1961.

Most buildings I saw dated from the early 1950s, and rose above the one and two story structures that had survived the Korean War.

At the time Korea was receiving balance of payments assistance from the IMF in the form of a line of credit to stabilize the country's foreign exchange position. In its agreement with the IMF, the Korean government had committed itself to liberalizing trade and to opening its doors wider for foreign investment.

The border of North Korea was a scant 25 miles from Seoul and provocations from the north occurred regularly. These conditions argued for continued military control of the government and senior army officers essentially ran the country while they competed with each other for power.

The IMF agreement also required that the Korean govern-

ment strictly enforce import controls on all manner of goods. In order to conserve foreign exchange, among other things, and to lower the use of imported oil, the government permitted only the burning of locally produced coal to heat homes, apartments and office buildings. As a result, during the winter cinders fouled the skies of Seoul.

Import controls also affected social interactions with my Korean colleagues who were subject to arrest for smoking foreign cigarettes. Though they were delighted to receive such gifts from me, they were always very careful not to be seen. At this point in the development of Korea the people were poor but they were very proud.

After returning to Oregon in the early 1980s I continued to regularly visit Asia on business. During those years I watched conditions change throughout the area and mostly for the better.

Today, Taiwan is a modern and democratic country. The current president and his immediate predecessor are native Taiwanese and were elected by the people. Trade has increased living standards exponentially. The skies of Kaohsiung are much clearer than before because the country's growing prosperity has permitted the cleaning up or relocation of polluting industries. A superhighway and modern high-speed trains now connect the ends of the island. The development of sewage treatment facilities has dramatically improved water quality in the Love River. The hulks of ships are gone and Kaohsiung

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year assignment. My wife was amazed at the contrast between our home in Oregon, where we were both raised, and the relatively primitive living conditions of our new home near Kaohsiung.

The Chinese people in Kaohsiung immediately gained our respect for their hard work and intelligence and because of this we were puzzled by their primitive standard of living. A cement plant operating within a short distance of our home constantly discharged large quantities of particulate matter. The Love River flowing through Kaohsiung and the streams that fed it stunk like a sewer. One of the major industries in

Harbor is now one of the busiest container ports in the world. Police no longer visit the Taiwanese people in the middle of the night. Nor do black marketers pirate first editions; in fact, Taiwanese companies now have intellectual property concerns of their own.

Seoul is a modern city with a highly efficient transportation system. The government has expanded Kimpo airport twice in order to service ever-increasing flows of air cargo and passenger traffic. In December, 2002 the Korean people freely elected President Roh Moon-Hyun. He is the third president so elected and will not be the last. Shoppers can buy a wonderful variety of foreign goods in the stores, including Gucci hand bags and Hermes perfumes and scarves. Private entrepreneurs are displacing the government-owned banks and sponsored enterprises that were nationalized by President Park in the 1960s.

These positive developments are largely the result of Taiwan's and Korea's decision to compete in international markets. By opening their economies to international commerce and investment both have increased their gross domestic product by an average of 6 percent and 5.5 percent per year, respectively,

since 1995. (See [www.stat.gov.tw](http://www.stat.gov.tw) and [www.english.mofe.gov.kr](http://www.english.mofe.gov.kr))

To a much greater degree than before, the citizens of Taiwan and Korea are now free to produce what they wish and sell it to willing buyers wherever they can find them. In the earlier stages of their modernization the economies of both countries relied heavily on the production of shoes for Nike, Adidas, and others. Both now produce microchips from sophisticated factories that are clean and much more pleasant places in which to work. Attracted by the emergence of a skilled work force and competitive wage rates foreign-owned companies set up increasingly sophisticated manufacturing operations in both countries. As wealth has accumulated, domestic capital increasingly augments foreign investment.

The ability of these countries to freely produce and sell has led to an accumulation of wealth sufficient to significantly raise their standards of living and fund the development of the infrastructure that benefits all citizens.

### The Theory

I am one of many visitors to China and Russia prior to or during their early opening years who

came away amazed at the abuse the citizens had suffered at the hands of their totalitarian masters. Certainly the absence of political freedom cost them dearly. The absences of personal and economic freedom however were most visible: roads in disrepair when there were any, crumbling apartment blocks constructed by uncaring workers with substandard materials and owned by no one. Both countries were sites of the world's most egregious forms of pollution. Shops were devoid of consumer goods that were available only to the elite, the only prosperous people in these countries.

The founders of our country were well aware that the free exchange of goods was essential to economic growth and prosperity. Indeed one of the causes of the American Revolution was the king's efforts to restrain the growth of colonial commerce in the world at large. The American colonies were allowed only to produce primary commodities for sale to Great Britain and purchase goods manufactured by British factories.

But as Alexander Hamilton explained in Federalist 11:

"An unrestrained intercourse between the States themselves will advance the trade of each by an interchange of their respective productions, not only for the supply of reciprocal wants at home, but for exportation to foreign markets. The veins of commerce in every part will be replenished, and will acquire additional motion and vigor from a free circulation of the commodities of every part. Commercial enterprise will have much greater scope, from the diversity in the productions of different States."

It was the logic of that statement, informed by their practical experience, that convinced the founders to constitutionally place the federal government in charge of interstate commerce. Their experience with directed and artificially constrained trade led to its prohibition within the United States. The individual states were not free to erect protective barriers to competition from others. We have prospered accordingly. As I observed in the cases of Korea and Taiwan, the same results can occur on an international scale.

Of course the path to that prosperity has not been without discomfort to those who once prospered and later found that their markets had vanished. For example Oregon's Wentworth Auto Group no longer manufactures wagons here as it did one hundred years ago. Former sawmill workers in Springfield now manufacture sophisticated products for Sony. Oregonians now build high-tech machines in Beaverton that are sold to microchip producers in Taiwan, Korea, China, and elsewhere. Our neighbors can now be found in Wilsonville developing engineering software that streamlines the design of increasingly powerful chips conceived in Oregon and manufactured here as well as in Korea and Taiwan.

Earnings from the export of those machines, software and chips are used to purchase consumer goods from abroad. And all the while the number of persons employed here and abroad has only increased.

Wagon manufacturers found something else useful to do and adjusted to the new reality rather than seek official protection from it. Instead of continuing to artificially direct resources to uncom-



petitive purposes, capital was freed to seek more productive outlets. The benefits of such freedom can now be seen in Korea and Taiwan—and even China.



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## A Response to John Metschan:

### Trade Agreements Need to Be Among Equals

It is true that the U.S. Constitution created a free trade zone among the states, centralized in Congress the authority to regulate commerce with foreign nations, created uniform tariff customs procedures, and a common currency, and guaranteed the enforcement of contracts throughout the states. These are all key elements of a "free trade agreement." However, the US Constitution also had other features that were key to the success of this nation's economy and which are not found in modern global or regional trade agreements such as the WTO or NAFTA. In order to insure somewhat equitable and uniform economic growth among the states, the Constitution protected the right of all citizens (excluding slaves, of course) to travel freely from state to state and to "be entitled to all the privileges and immunities of citizens in the several states." (Article IV, Section 2) Thus not only was the mobility of investment capital, and the movement of goods protected, but also the mobility of labor which allows workers to seek higher paying jobs in other states and protects against a race to the bottom in terms of wages and working conditions. Later the federal government, faced with the Great Depression, created federal minimum wage and maximum hour laws as well, along with protections for workers' right to organize into unions and many uniform federal anti-trust, securities, health and safety, and environmental regulations. It was these regulations, as well as the encouragement of commerce among the states, that resulted in the robust economy the US has enjoyed for the last sixty years.

When NAFTA was under negotiation, prominent Mexican critics, including Adolfo Aquilar Zinser, the present Mexican ambassador to the UN, and Jorge Castaneda, until very recently the Mexican foreign minister, worried about the impacts of creating a free trade area among vastly unequal economies. Of primary concern for President Vicente Fox has been the reluctance of the United States to negotiate about the legal status of Mexican immigrants who are filling many of the low wage jobs in the United States. But equally important to Mexico is the lack of an infrastructure that might equalize their ability to compete economically with the United States as anything other than a nation-wide

sweatshop. The Maastricht Treaty, which created the European Union in 1992, included not only the right for all European citizens to travel freely throughout the EU, but also a critical "social cohesion fund" which provides grants (not loans) from the richer northern European countries to the poorer states such as Greece, Spain, Portugal, and Ireland, to improve infrastructure so as to level the economic playing field. The EU also established base social standards, wages, working conditions, environmental and public safety rules. None of these features exist in NAFTA, much less in the WTO.

Finally, it would be a mistake to think of the United States in its early years as a paragon of free trade beyond its borders. When looking to trade with other nations, protectionism and high tariffs were generally accepted as sound economic policy by our Founding Fathers and by all subsequent administrations right up until World War II. In fact Alexander Hamilton was one of the strongest proponents of tariffs as a tool to stimulate U.S. economic development as well as a source of revenue for the infant nation. Hamilton promoted both government subsidies of manufacturers and protection against foreign imports as necessary to build the nation's economy.<sup>1</sup> This same thinking dominated the Newly Industrialized Economies of East Asia, including Taiwan, Hong Kong and South Korea, during the 70s and 80s, when their domestic industries were heavily subsidized and protected by tariffs and their financial sector heavily regulated. Many economists attribute the rapid economic growth of these "Asian Tigers" to protectionism and the Asian economic crisis of 1997-98 to the subsequent opening of the East Asian economies to deregulated globalization.<sup>2</sup>

1. See Alfred Eckes, *Opening America's Markets: US Foreign Trade Policy Since 1776* (Chapel Hill, NC 1995) and Douglas Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton, NJ, 1996).

2. See Paul Burkett, and Martin Hart-Landsberg, "East Asia and the Crisis of Development Theory," *Journal of Contemporary Asia* (1998).

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