



The United States and the World Economy

FOREIGN ECONOMIC POLICY FOR THE NEXT DECADE

C. Fred Bergsten and the Institute for International Economics

Washington, DC January 2005

Contents

Preface			
Executive Summary			
i	Foreign Economic Policy for the United States		
1	A New Foreign Economic Policy for the United States C. Fred Bergsten	3	
	Short-Run Agenda Domestic Foundations of Foreign Economic Policy The New Global Context Proposals for Policy US Foreign Economic Diplomacy Conclusions	7 15 19 24 50 55	
II	The Policy Context		
2	The Payoff to America from Global Integration Scott C. Bradford, Paul L. E. Grieco, and Gary Clyde Hufbauer	65	
	The Payoff from Past Liberalization The Payoff from Future Liberalization Conclusion	71 86 95	

	Appendix 2A Intermediate Imports: Gains Through	102
	Worker ProductivityAppendix 2BAn Estimate of Labor Adjustment Costs	102 106
		100
3	Uneven Gains and Unbalanced Burdens?	
	Three Decades of American Globalization J. David Richardson	111
		110
	Uneven Gains? Unbalanced Burdens?	112 116
	Quo Vadis American Policy?	110
	Quo vaus American Foney:	110
4	j	121
	Nicholas R. Lardy	
	China's Emergence in the Global Economy	122
	US-China Economic Relations	125
	Causes of the Bilateral Trade Imbalance	126
	China as a Technological Leapfrog	131
	China's Exchange Rate Implications for US Policy	134 137
	implications for OS Folicy	157
5	The United States and the Large Emerging-Market Economies:	
	Competitors or Partners?	143
	Jan E. Boyer and Edwin M. Truman	
	Summary of Recommendations	145
	Who Are the LEMs?	147
	Why Are the LEMs Important to the United States	
	and the World?	151
	How Should the United States Deal with the LEMs? Active Collaboration Between the United States and LEMs	154 162
	Budgetary Reality Check	102
	Budgetury Reality Check	170
III	The Key Issues	
6	Sustaining Global Growth while Reducing External Imbalances	175
	Michael Mussa	
	Forces Behind the Recent Rise of the US External Deficit	178
	Emergence of the "Twin Deficits" During the 1980s	179
	Factors Behind the Strong Dollar of the Late 1990s	181
	Recent Developments and Future Prospects	183
	Sustainable Scale of External Imbalances	184
	General Need for Exchange Rate Adjustment	189
	Industrial-Country Policies to Contribute to Orderly	102
	Reduction of External Imbalances	193

	Key Issues for Developing Countries in the Orderly Reduction of International Imbalances Conclusion: Virtues of Some International Policy Cooperation	201 206
7	Energy: A Gathering Storm? Philip K. Verleger Jr.	209
	Sources of Strain in Global Energy Markets Strains on the Oil Market: Repeating History Scenarios for World Oil Markets and the World Economy Economic Impacts of the Next Price Shock Moderating or Avoiding the Impending Energy Crisis Short-Term Measures to Address the Current Problem Long-Term Strategies for Addressing the Energy Problem Conclusion: Time Is Short and Action Is Required Appendix 7A The BP Prudhoe Bay Trust's Link to WTI	210 221 222 225 228 230 236 243 245
8	Confronting Current Challenges to US Trade Policy Jeffrey J. Schott	247
	Domestic Trade Policy Agenda International Trade Agenda Conclusions	250 259 277
9	Offshore Outsourcing and the Globalization of US Services: Why Now, How Important, and What Policy Implications <i>Catherine L Mann</i>	281
	Globalization of Services: How New? How Different? How Important Is Globalization of Services for the	283
	United States? Globalization of Services and Jobs: The Numbers for the	287
	United States	293
	Globalization of IT and US Performance	299
	Globalization of Services: Is There No End to It? Responding to Global Sourcing: Maximizing Gains and	305
	Moderating the Backlash Final Words	305 309
10	Easing the Adjustment Burden on US Workers Lori G. Kletzer and Howard Rosen	313
	Trade Adjustment Assistance Unfinished Business A More Ambitious Agenda	316 325 331 336

	Summary	• Opportunities and Conclusion 10A Highly Import-Competing Industries,	337 339
	Аррения	1979-2001	341
11	Challenges Gordon H.	s for US Immigration Policy Hanson	343
		Current US Immigration Policy	344
		JS Immigration	348
		nd Costs of Immigration	355
	Reforming	US Immigration Policy	365
12	The Interna Morris Go	ational Financial Architecture	373
	Discourag	ing "Beggar Thy Neighbor" Exchange Rate Policies	376
		g Currency Mismatches in Emerging Economies	381
	Debt Susta		384
		nal Standards and Codes	388
		ning Systems	392
		ing Policies	394
	Concludin	g Remarks	400
13		Development . Cline and John Williamson	409
			412
	Trade	ent Assistance	413 419
		ig Remarks	419
	Concludin	g Kemarks	424
Ab	out the Con	tributors	429
Inc	lex		435
Ta	bles		
Ta	ble 2.1	Summary of results: Past and future annual payoff	60
Та	hla 2.2	from US trade and investment liberalization	69 70
	ble 2.2 ble 2.3	Methodology comparisons Output elasticity: Benefits of increased trade exposure	
	ble 2.4	Sifting and sorting: Productivity benefit of reduced	/+
14	010 2.4	import tariff barriers	82
Та	ble 2.5	Smoot-Hawley CGE: Effect of reverting to 1930s tariff	
		regimes	85
Та	ble 2.6	MFN applied tariffs for all products and estimated	
		tariff equivalents in traded services	90