

not likely to produce a progressive momentum towards free trade.

After all, multilateral trade liberalization requires multilateral solutions. Excessive reliance on unilateral liberalization which essentially underplays liberalism from above is not likely to set a stage for a full pace of lowering tariff and non-tariff restrictions in the post-Doha epoch. The collapses of the Doha Round multilateral trade negotiations under WTO on top of the disappointing outcome achieved by existing PTAs call on a more heuristic approach to liberalism, whereby the governments leverage on the synergies of both bottom-up and top-down liberalization. All efforts must be made to put in place the continuation of the multilateral negotiations under WTO and transform the “trade-light” PTAs into the “WTO plus” ones.

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***Mad About Trade: Why Main Street America Should Embrace Globalization.* By Daniel Griswold.** Washington, D.C.: Cato Institute, 2009. Pp. 203.

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The onset of the current recession has seen a renewed wave of popular pressure for the implementation of protectionist measures amidst public declarations of commitment to free trade by political leaders around the world. The case for free trade is an interesting one due to the large disconnect between popular opinion and economic theory. Economists may disagree on many things, but free trade is one issue that generally receives universal support within the economics community. Yet in mainstream society, there remains a general skepticism among large swaths of the population regarding the benefits of open borders and increasing globalization. In his new book, *Mad About Trade*, Daniel Griswold of the Cato

Institute attempts to bridge the gulf between economic theory and popular opinion by offering concrete, relatable examples in support of free trade, presenting the case for a continual embrace of free trade and globalization. With talks of a possible ASEAN-US Free Trade Agreement on the horizon, trade negotiators in the ASEAN region would do well to bear these lessons in mind and remind their American counterparts of the rationale behind the need to maintain open markets.

Griswold spends a large portion of the book responding to public concerns regarding trade. For example, he exposes the flaws in the argument that free trade hurts the economy, by pointing out that although lower prices caused by greater import competition may indeed harm import-competing producers, consumers benefit more than producers suffer, since an imported product is consumed in a greater quantity that it is produced domestically. Society as a whole is therefore better off as a result of freer trade.

Another issue that Griswold addresses is the trade deficit, which has acquired a rather negative reputation in popular opinion. Griswold notes that in addition to the current account market for goods and services, it is also important not to overlook the capital account, which tracks the trade of assets. By definition, the net outflow of goods and services associated with a trade deficit must be balanced by a net inflow of foreign investment into the U.S. There is therefore nothing inherently wrong with the U.S. running a trade deficit, and there is no need for correcting policies. The greatest danger of the trade deficit lies in the pressure it places on politicians to try to “correct” it by implementing protectionist policies.

In addition to introducing an economic framework to the discussion of free trade, Griswold also dispels some of the myths about free trade. One popular belief is the “race to the bottom” myth, which states that multinational companies will congregate in countries with the lowest wage costs and the most lenient environmental and labour standards, sparking off a downward spiral as countries compete to push wages and labour standards down in order to

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remain competitive and attractive to investors. Griswold, however, points out that low wages are also indicative of low productivity, which means that companies seeking to employ productive, skilled labour will remain in rich countries with high wage costs.

Another interesting point in the book is Griswold's refutation of the idea that the income of American workers has shrunk over the years. In making this point, critics often point to a lower average real hourly wage today relative to the 1970s, and blame free trade on this phenomenon. Yet Griswold points out that the average real wage is a misleading measure of the American workers' welfare. This figure depends on consumer price index (CPI) estimates, which tend to overstate the cost of living due to their inability to capture the effect of improving technology and product quality on rising costs. Furthermore, worker compensation packages have also grown to include non-monetary perks, such as healthcare benefits and 401(k) contributions, which do not factor into real wage figures. Hence, despite what might appear to be a lower average real hourly wage today, the American worker has enjoyed real gains in utility.

In addition, Griswold addresses the concern brought up by Lou Dobbs in *The War on the Middle Class* that the American middle class is shrinking as a result of increased globalization. Although the proportion of American households which earned a middle-class income of between \$35,000 and \$75,000 has fallen from 38.5 per cent in 1990 to less than a third in 2007, Griswold points out that these households are not regressing into lower-income brackets; instead, they are moving up the income ladder into higher-income brackets. Hence the real story of the shrinking American middle class is that American households are becoming richer.

Another popular myth about free trade that Griswold dispels is the misguided notion equating the service sector with low-paying jobs like cashiering at a retail store. Critics who assume this often point towards the economy's transitioning focus from manufacturing jobs to service sector jobs as a regression of the American economy. Yet

Griswold notes that most of the jobs in the service sector pay higher wages than the manufacturing jobs lost, such as doctors, researchers, lawyers and bankers. A transition towards a service-based economy is therefore a sign of economic success.

Griswold also introduces some useful ways to think about trade in the book. He alludes to protectionism as being analogous to granting certain domestic or foreign producers monopoly power, since it restricts import competition. Given that most individuals are able to accept that preserving market competition and breaking up monopolies is generally a good thing for the economy, they should similarly appreciate the drawbacks of putting protectionist trade barriers in place. As picked up by Jeff Jacoby in his editorial for *The Boston Globe* on 10 January 2010, Griswold also refers to trade barriers as depriving people of the rewards they deserve for their labour, redistributing instead these benefits to others on the basis of political influence.

Finally, Griswold concludes the book by offering policy suggestions to improve American trade policy. For example, he proposes eliminating tariffs on products disproportionately consumed by the poor, which would move the country towards a more progressive tax system, thereby reducing income inequality. Other suggestions include an investigation of the income-transfer effects of tariffs, which would offer a clearer picture of the true costs of trade barriers, as well as the consolidation of all unemployment assistance programmes to apply equally to all displaced workers rather than just those displaced by import competition, since all retrenched workers should be equally deserving of unemployment support. His suggestions are generally sensible and practical, and deserve further attention from policy-makers.

While Griswold has generally done a good job of carrying the flag of free trade in his book, there are some aspects of free trade that could have been further developed. For example, Griswold introduces the concept of preferential trade agreements by assessing the effects of the North American Free Trade Agreement (NAFTA) since it came into force in 1994. He paints a very

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positive picture of NAFTA, attributing to it the strong growth in manufacturing jobs in the U.S. and lower unemployment rates. Yet in his shining assessment of NAFTA, Griswold fails to discuss the drawbacks of preferential trade agreements. As Doug Irwin pointed out in his book, *Free Trade Under Fire*, the danger of preferential trade agreements is that they create distortions in trade by incentivizing trade with certain countries but not with others. The benefits of these agreements depend largely on whether they represent intermediate transitions towards a multilateral system of free trade, or whether they are formed based on geopolitical factors, thereby distorting trade into artificial patterns.

Griswold could also further improve his book by presenting economic growth as a continual drive towards greater efficiency. As demonstrated in Russell Roberts's book *The Choice*, when scarce resources like labour and capital are employed in sectors where they are most productive, they maximize both the value of output and the utility of the country. Seen in this context, protectionism allows inefficiencies to persist within the system, shielding unproductive sectors from market competition and blocking the forces of change towards greater efficiency. This, perhaps, is the greatest travesty of protectionism.

In addition, although Griswold's arguments in favour of free trade are strong, his embrace of trade liberalization is not without its caveats. For example, Griswold calls for the elimination of all trade barriers that raise the cost of production for domestic producers. While this is an attempt to illustrate the impact of import barriers on import-using producers, Griswold fails to point out that this strategy is not always optimal. If there are existing distortions in the market which are offset by the distortion of these import barriers, such as an import tariff on the final product, heedlessly eliminating the trade barriers would introduce new distorting effects into the economy equivalent to a subsidy of the production of these goods.

The case for free trade that Griswold presents compellingly in this book is a lesson that is highly relevant for ASEAN member countries, whose interests lie strongly in favour of maintaining free

trade and an open global economy. Over the last few decades, many ASEAN countries have achieved significant progress in income levels and standards of living as a result of export-driven growth. Clearly, as the region's manufacturing sector continues to develop, trade will continue to drive economic growth and bring wealth to ASEAN member countries. The ASEAN Free Trade Area, as a backbone of the ASEAN Economic Community's goal to maintain a single market and production base in the ASEAN region, as well as ASEAN-China and ASEAN-India Free Trade Areas which came into effect at the beginning of the year highlight ASEAN's continued commitment towards maintaining an open and multilateral system of global trade.

Yet the opponents of free trade are numerous. Ian Fletcher's recent book, *Free Trade Doesn't Work: What Should Replace It And Why*, is clear evidence that there remain those who would rather see a reconstruction of trade barriers which have been so painstakingly dismantled through years of diplomacy and trade negotiations. In this current economic climate, as soaring unemployment rates and reduced global consumption continue to tempt governments into implementing beggar-thy-neighbor trade policies in the hope of reviving domestic production, it is extremely important that trade policy-makers stand firm against a renewed push for protectionism. For ASEAN countries, to which free trade and open markets mean so much in terms of opportunity for growth, this is an important point to bear in mind. It takes two to come to an agreement, and as ASEAN continues to expand its free trade agreements with more of its trading partners, ASEAN trade negotiators will need to frequently remind their counterparts of the urgent need to keep markets open and trade barriers low in order to sustain strong economic growth. Griswold's book is thus a handy guide for this purpose.

To conclude, Griswold makes a persuasive case in favour of free trade and increased globalization. By drawing lessons from economic theory, he exposes the fallacies of numerous ill-founded popular notions about the alleged dangers and costs of free trade. Of particular interest are his

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policy recommendations at the end of the book, which offer policy-makers practical and politically feasible ideas to improve their countries' trade policies, as well as strengthen their position on FTA negotiations.

In short, *Mad About Trade* is a lively read packed full of easily-relatable arguments in favour of free trade and globalization, and bears valuable lessons for policy-makers and trade negotiators in any country committed to a multilateral system of free trade.

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***Manufacturing Competitiveness in Asia: How Internationally Competitive National Firms and Industries Developed in East Asia.*** Edited by **Jomo K.S.** London and New York: Routledge, 2003, 2006. Pp. xviii, 217.

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Reviewing a six-chapter volume reprinted in 2006 is rationalized as it is still relevant and useful. The 2003 publication was from a research project of the Foundation for Advanced Studies in International Development, 1996–98 with the 1997–98 Asian crisis in-between. The editor is well placed in expertise and experience to masterfully do Chapter 1's comparative analysis of the World Bank's 1993 East Asian Miracle (EAM) and the Asian Development Bank's 1997 Emerging Asia (EA) to explain seemingly inexplicable Asia. Chang Ha-Joon's Chapter 2 originated from another project, heavily edited for another World Bank 2001 volume on Rethinking the EAM edited by Joseph Stiglitz and Shahid Yusuf. Given such progeny, reviewing this volume in the aftermath of the 2007 U.S. subprime mortgage which triggered a global recession, the likes of the Great Depression has one-everlasting, one-word lesson in crises: greed.

The literature survey (Chapter 1) of competing explanations of the EAM, from culture to

conjuncture remains as controversial and unanimous then as now. Japan has lost more than a decade and even Western capitalism has fallen prey to some version of a developmental state with government bailouts from banks to automobiles on both sides of the Atlantic. While politically avoiding nationalization per se, the U.S. may now appreciate if not totally understand the East Asian economic model (particularly, Singapore's government-made industrial policy sanctioned by multinational corporations (MNCs)). Chapter 1 compares various tiers of highly-performing East Asia (HPEA) in the EAM model with a more regionally composed EA. Neither differentiates the East Asian economies by policy differences as late industrializers though industrial policy in Japan, South Korea and Taiwan display greater industrial and technological capabilities than others. The trio had selective foreign direct investment (FDI) versus FDI as more crucial in Singapore and Malaysia.

Both EAM and EA studies repeat neoliberalist trade, liberalization and economic openness as simulated free trade and industrial policy with subsidy (p. 4), not free trade per se with less constraints via the World Trade Organisation (WTO). East Asia is no conclusive proof of industrial policy failure in principle (p. 6). It faces new constraint to articulate, elaborate and implement it well (p. 7). Global competition heightens with China and India added to the manufacturing supply equation. Neither EAM nor EA explains why government intervention on balance accelerated structural transformation to develop industries and technological capabilities. This volume suggests an alternative institutional basis to understand the consequences of government intervention by highlighting micro-economic determinants of economic performance and institutional features of industry and firms. Industrial policy and selective proactive government as collective action has industry and firm shape, in turn shaped by environmental factors, harnessing macroeconomics and meso-economics for international competitiveness.

Chapter 2 reviews industrial policy as selective government support for sectoral growth with