Remarks by U.S. Trade Representative Susan C. Schwab

Woodrow Wilson Center Conference

January 15, 2008

* AS PREPARED FOR DELIVERY *

Introduction

- Thank you Lee [Hamilton]. Great topic; much appreciated.

- I want to express my gratitude to the Commerce Department, the Department of Agriculture (Economic Research Service), the U.S. International Trade Commission, the Treasury Department, and, of course the Wilson Center for helping to pull together this conference. Also my thanks to the USTR team.

- Speaking as user of data and modeling, but wonk instincts may creep in…. As a public servant, and as a former academician, I believe that the development of public policy should be debated thoroughly -- based on the facts. The critical work of your organizations and this conference will help to ensure we debate these key policy issues from common ground.

- Begin with the obvious: You have your work cut out for you:

    - Default mode was free trade is good; protectionism bad. Not necessarily true today; some actually questioning underlying premise.

    - Cycle time for modeling, data collection and processing, and for much work in the academic community falls far short of cycle time affecting need – related to the misunderstanding and misuse of data; or use of anecdotes instead of data in context of political rhetoric.

Modeling Trade Policy – "Tools of the Trade"

- Begin with congrats: Real progress has been made in estimating the effects of tariff changes on national economies, states and regions and even different income groups. See ustr.gov; tradeagreements.gov.

- Info is invaluable.

- As noted in your report, however, the biggest challenge we all confront in terms of negotiations and use of models today and going forward, rests with insufficient data and the state of modeling techniques that capture the effects of modern trade agreements on services trade, investment, IPR protection and non-tariff measures.

- You – and we – also face the challenge of reflecting the growth (dynamic) effects of trade agreements. For example, related to changes in investment and technological innovation where we know increased competition can spur firms to innovate and invest more, and to introduce new products more quickly. Unfortunately, so many of the models we use; data we rely on underestimate the longer term and multiplier benefits from trade agreements.

- The economics and modeling communities must be committed to advancing on these and other fronts noted in your papers, but we must work together.

    - Policymakers can help increase the relevance of research (e.g. by explaining key provisions of agreements, stressing priorities, providing data inputs and improving data collection).

    - Researchers can help policymakers interpret model results (e.g. by explaining assumptions that drive results, testing the robustness of results and being explicit about model limitations).

- In this regard, we particularly appreciate the rigorous analysis of our Free Trade Agreements. The detailed and complex evaluation of FTAs is the province of a small number of scholars, but your work allows for good trade policy which generates economic growth and lifts millions out of poverty.

<u>Skewed Understanding of Trade's Impact on the Economy</u>

- We have a challenge to face together – as Policy Makers, Academics, Researchers, Private Sector leaders, and policy analysts. The forces of economic retrenchment and isolationism are rising on the winds of dubious economics and popular myths.

- We see a growing anxiety regarding the effects of globalization at home and across the world. In the face of clear and convincing evidence that opening markets has generated unprecedented economic growth and raised hundreds of millions of people out of poverty…critics scornfully blame the very engines of growth for every economic hardship.

- Here we see the effects of

  - Misuse or misunderstanding of data. This is especially true in the case of “causality” – what is to blame for what. Listening to anti-trade rhetoric, you would think that every economic ill in the US and world economy can be attributed to trade. Examples – *LATimes* (printing press) vs consumer electronics show vs UPS/FedEx vs Starbucks and coffee exports.

  - Lack of economics training and basic economic literacy. College graduates and even graduates of some international public policy programs are able to get by without taking a serious macro class.

- In the case of the former, those of you in academia need to push for curriculum reviews. In the case of the latter, you/we must do a better and faster job of explaining trade for normal human beings to understand; and refuting flawed economics).

- There is also the question of how to ensure our modeling of trade agreements reflects how business is really conducted in a globalized world: So very much in business modeling has proven hard to reflect in trade modeling:

  - Full product life cycles and supply chains, where the full spectrum of added value is reflected from ideas to innovation, design and engineering, to manufacturing and assembly, to management and back office activities, to marketing, distribution and sales, to aftersales parts and service.

  - Services associated with trade.

  - What companies do to stay competitive – not just in terms of price, but also in cycle time (how fast from innovation to marketplace; new product development; quality and customer service, etc.)

- Ref: Consumer Electronics Show; Consumer Electronics Association w FT as priority.

- Your work is essential to show the real and deep benefits of opening markets and developing a rules-based international trade system.

- We can and should have a debate about the range of issues that affect our economic health as a nation – from education, health care, regulatory policy, energy policy, and yes, trade policy. But we must confront the naysayers with a firm belief in the facts and the power of trade liberalization to unlock economic growth and combat global poverty.

- The United States is one of the most open economies in the world. We need to keep it that way. More importantly, we need to open new markets for ourselves and for other nations. That is the basis of our trade liberalizing efforts. To retreat from the world will harm, rather than help, our economic prosperity.

<u>Do the facts support the accusations of those who wish to wall off our economy and reject over seven decades of progressive liberalizing trade policies?</u>

1) JOBS

- Many warn that outsourcing and offshoring will ship our jobs abroad – and that our jobs at all levels are vulnerable.

- Job loss and job creation are both key components of a dynamic economy such as we enjoy in the United States. Last year alone the US generated a net gain of 1.8M nonfram jobs of which 1.5M were in the private sector.

- Labor markets change – and across the history of the United States, labor markets have changed to the benefit of the American people – from farming, to manufacturing, to services…the American worker has continued to move up the economic ladder each decade.

- Today people change jobs – and careers – many times in the course of their working lives. And the types of jobs they now hold have evolved: The average American has 10 jobs before the age of 40 – including in high wage, high skill services jobs and/or in one of the 5 million jobs we have "insourced" through investment from Japanese, German, French, Korean companies.

2) MANUFACTURING

- You will also hear from the critics that the United States is losing it manufacturing base.

- The fact is that our manufacturing output is up, not down. If you look at the 1987 – 2007 period, U.S. manufacturing output grew 64%. During this same period, U.S. productivity rose 100%. Unfortunately, U.S. manufacturing jobs declined by 20% - and with it, pain. But, need to address the needs of these individuals directly; adjustment assistance, retraining, vibrant economic and job growth – not punishing rest of economy.

- Again, to listen to the rhetoric, you would think that US manufacturing is down, not up. Or that unemployment is down, not up. Even at 5% unemployment, the US economy has steadily generated growth and jobs for an unprecedented 52 consecutive months.

3) TRADE DEFICIT

- The size and impact of the trade deficit is another popular target of the critics of free and fair trade policy. The trade deficit is something to pay attention to, but it must be viewed in the proper context. Here this issue of causality is particularly relevant here, as you know.

- With regard to the source of the trade imbalance, 80% of the increase in last year's goods and services trade deficit (2006) resulted from paying higher prices for petroleum imports.

- Another reason why the trade deficit has remained stubbornly high is that our trading partners have had a period of relatively anemic growth as the U.S. economy has enjoyed strong economic growth. From 1995 to 2005, U.S. GDP grew 3.6% a year on average; as Europe (Euro zone countries) grew 2.2% a year and Japan grew roughly 1.3% a year.

- In the first 11 months of 2007 compared to the same period of 2006, our exports grew more than twice as fast as imports and the trade deficit dropped by almost 7.0%.

- As a share of GDP, the deficit has also declined – from 5.8% in 2006 to approximately 5.1% last year.

- The best way to rebalance the trade deficit is by increasing our exports to meet increasing demand by our trading partners – and that is exactly what is happening.

- And this makes the passage of pending FTAs with Colombia, Panama and Korea that much more important, because the benefits in terms of U.S. exports would be felt almost immediately.

    - [Note U.S. exports to fta partner countries up 60% faster than to rest of world; almost 2x (100%) faster to more recent FTA partner countries.]

4) DEVELOPING COUNTRIES

- Finally, some argue that developing countries are better off participating in the trade preference programs that keep their fledgling industries protected rather than fully engaging and committing to the global economy.

- But we have reliable studies from private economists, the World Bank, the Blair Commission on Africa, among them, that conclude that developing countries would be far better off by lowering their barriers to trade.

- Seventy percent of the duties paid by developing countries are paid to other developing countries.

- The Blair Commission concluded that increasing sub-Saharan Africa's share of global trade just one percent – to three percent – could boost incomes there by $80 billion. That is three times the amount that region receives from donor countries.

- And yet we find in the context of the Doha Round and FTA negotiations, well meaning NGOs providing advice to developing country governments or political opponents that fly in the face of sound economic theory and practice.

Now is not the time to retreat or retrench

- Globalization will continue. It is a fact on the ground. As policymakers, economists, statisticians, political theorists, researchers, academics, and citizens – it is absolutely critical that accurately we model and measure the positive and negative impacts of globalization.

- Only through thoughtful consideration of solid data, can we ensure that the benefits of free and fair trade are enjoyed by the broadest number of people and countries.

- But we will not create a single job in the United States or assist a single villager in a developing country if we relent in our efforts to open new markets.

- We have a lot to study, analyze and debate. We should do that. Your work this week is contributing to the quality of that debate.

- We will grow our economy and create jobs by increasing U.S. exports and staying competitive – NOT by restricting imports. Ditto the importance of market opening for generating global economic growth, development and the alleviation of poverty.

- Thank you for helping us better understand how trade policy impacts the global economy at the macro and micro level, and thank you for letting me share some thoughts with you today.