

## **Globalization, Trade, and Economic Security**

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I would like to thank Mr. Aubuchon for this invitation. I am here to speak about trade, but I will confess that my life-long interest is history. So it is a real honor to stand at this podium where many of the men and women who have defined modern history—Winston Churchill, Indira Gandhi, Ronald Reagan, Nelson Mandela—have spoken.

Your founding credo from 1908 promises to promote friendly exchanges between the news gatherers and newsmakers. In doing so, it may be useful, from time to time, in the rush of deadlines and breaking news, to pause for a more in-depth look at the issues molding our times. With that purpose, I will discuss the intersection of globalization, trade, and economic security.

### **Why is Trade Important?**

Today, that intersection leads to the small town of Joplin, Missouri. Since its founding in 1873, Joplin has been a railroad center for grain and livestock and lead and zinc mining. It is also home to King Press, a company that manufactures printing presses for small daily and biweekly newspapers. The lobby at the King Press plant, which I visited last year, is draped with colorful flags representing the 65 nations where the company has sold its presses. In fact, King Press' sales are largely dependent on exports, and so are the jobs of its 53 employees.

This year we have some good news for King Press—the Trade Act of 2002, which will help that small but vital business, and many others whose trade contributes to economic growth and American jobs. The Act includes Trade Promotion Authority, or TPA, which gives President Bush the authority to conclude trade deals around the world—subject to an up or down vote by Congress—that will enable us to open new markets. Just as King Press exports the tools for free speech, TPA will help us to transmit, through the power of free trade and open commerce, America's values: economic liberty, freedom of choice, transparency, the rule of law, and individual opportunity.

The benefits of American trade touch the lives of workers and families around the globe. Last year, President Bush sent me as an emissary to meet President Megawati, the new president of Indonesia, to discuss questions of security, democracy, and economics. President Megawati had just assumed office three days before my arrival. What should have been a celebratory inaugural period for her was shadowed by warnings about Al-Qaeda terrorists. That was five weeks before September 11.

When I returned to Indonesia this April, I visited the small islands of Batam and Bintan with my friends, the trade ministers of Indonesia and Singapore. We announced a new U.S. trade proposal, the “integrated tariff initiative,” which would not only open duty-free trade in certain information technology products, but also eliminate burdensome processing rules. By incorporating this initiative within our soon-to-be-completed free trade agreement with Singapore, we can connect Indonesia to the global sourcing network of international business, drawing investment and creating jobs. We will also be offering hope and opportunity in the largest Muslim country in the world, part of a strategy of building economic alliances with countries that are critical to global security and supporting democracies promoting tolerance.

Shortly after that trip to Indonesia, I visited the TRACLO apparel factory in South Africa, where 1,200 employees make clothes for The Limited and other retail stores.

For the numerous women who worked at TRACLO, representing tribes from all over Southern Africa, these jobs meant the difference between poverty and being able to feed and clothe extended families of a dozen or more people. For many, this job was the first time they could work year-round and get medical services. Their paychecks—and South Africa’s development—depends on American consumers and on the decisions we make about open markets. The workers know this, and about 20, proudly dressed in tribal attire, welcomed me to their modern factory with a joyful song. I don’t know if it was about Trade Promotion Authority—but it was certainly uplifting!

I am sometimes asked why trade is important to the United States. These three stories—spanning from the American heartland to Asia to Africa—show three of the different faces of trade: Trade is about economic growth and jobs in Missouri; security and democratic values in Indonesia; and development and opportunity in South Africa. Let me say a few more words about each.

### **Trade and Economic Growth**

Trade is a two-way street, as my visit to King Press in Missouri shows.

Two hundred years ago, the mercantilists believed that trade should be a government-managed business where exporters won and importers lost. Others—the protectionists—did not want to import any competition. But trade is like other business dealings—both parties gain from an exchange with more choices, better quality, lower prices, and more competition. The more we expand trading networks with other nations, the more opportunities, better jobs, and economic growth we create at home.

Over the past decades, trade has proven to be an increasingly important source of growth in the U.S. economy. Between 1971—when I first studied economics in college—and 2001, trade and returns on international investment have risen from 13 percent of the value of the U.S. economy to nearly 30 percent. As Alan Greenspan has said, “Openness and globalization are one of the most underestimated aspects of U.S. growth throughout the 1990s coming off the [global trade agreement of the] Uruguay Round and the North American Free Trade Agreement.”

Expanded trade—imports as well as exports—improves our well-being. Exports accounted for about 25 percent of U.S. economic growth over the course of the past decade and support an estimated 12 million jobs; moreover, because those workers compete successfully around the world, they are more productive, and their wages are estimated to pay 13 to 18 percent more on average than non-export jobs.

By lowering prices through imports and increasing incomes through trade, NAFTA and the Uruguay Round agreements have provided the average American family of four with benefits amounting to \$1,300 to \$2,000—each and every year. A University of Michigan study shows that lowering remaining global trade barriers by just one third would boost average annual family income by an additional \$2,500.

A free and open trading system is critical to many of the most competitive sectors of the U.S. economy. American farmers plant one in three acres for export and nearly 25 percent of their gross cash sales are generated by exports. Manufacturing exports are roughly 35 percent of the value of U.S. manufacturing establishments’ output. America’s dynamic high-tech sector depends on exports, with \$189 billion in foreign sales last year. Software producers earn over half of all their revenue overseas.

Open trade is the passage to the potential of the global economy—for today and tomorrow. For the present, the prospects of increased trade opportunities can strengthen interest in investment and confidence in financial markets, adding wind to the sails of commerce now moving forward only slowly.

In the future, more open global markets will enable regional and worldwide businesses to tap the gains from wider sourcing and sales networks, creating productive interconnections, cutting costs, and adding customers. Trade liberalization, by increasing price competition and diversifying sources of supply, can also help to dampen inflationary pressures in an economy. Indeed, I suspect that some monetary authorities in other countries have not yet factored fully the effects of trade’s greater price competition on the ability of monetary policy to promote economic expansion without triggering inflation.

## **Trade, Security, and Values**

America's strategy to promote a more secure world recognizes the ties of free trade and free societies. Our enemies targeted the World Trade Towers because they recognized that economic strength is at the foundation of America's hard and soft power. Our campaign against them and others should employ economic and trade policies to underpin America's long-term security.

The source of terrorism is not poverty; to believe that is an insult to poor people all over the world. Terrorism's roots lie in a deep evil. But there is no doubt that societies that fragment, that are poor, that have no sense of hope, become fertile grounds in which terrorists can burrow. So all of us have a stake in development, in democracy, in openness, in hope, in opportunity.

The connection between trade and America's security is often better understood overseas: This August, after Congress passed the Trade Act of 2002, I sent a letter to Congress outlining the President's plans to pursue a free trade agreement with Morocco. The U.S. press did not cover the story, yet it was front page news in Morocco.

As I wrote Congress, Morocco was one of the first countries to condemn the September 11 terrorist attacks against the United States. It has stood by our side ever since. An FTA with Morocco would strengthen our economic and political ties to the region, complementing the FTAs we already have with Jordan and Israel. Morocco is implementing significant political and economic reforms; an FTA with the United States will help to support and accelerate its embrace of the modern world. And the Administration's commitment to free trade with a leading moderate Arab state sends a signal throughout a tempestuous region: of America's support of tolerant, open, and more prosperous Muslim societies.

A week before I sent that letter to the Congress, I was in Colombia for the inauguration of President Alvaro Uribe. The morning of the inauguration I joined outgoing President Andres Pastrana for his last official event: a meeting of Colombian business people to discuss how they could use the expanded Andean Trade Preference Act, just passed by Congress, to strengthen Colombia's economy during this time of trial. A few hours later, I stood in Colombia's Chamber of Deputies while terrorist guerillas fired rockets in a failed effort to stop democracy. Nor have they halted the new Colombian business of selling cut flowers to the United States—now a \$500 million business that supports 75,000 jobs in Colombia—which flourished because the ATPA cut U.S. tariffs on those flowers to zero.

A month before my visit to Colombia, I spoke to the Australian American Leadership Dialogue. Australia is a great friend to America: the Diggers have fought with Dogfaces in every one of our Twentieth Century conflicts. Australia, the world's 14th largest economy, also is eager to strike a free trade agreement with the United States, and not

just for economic reasons. I will meet Trade Minister Mark Vaile tomorrow to discuss our common agenda. As Australian Foreign Minister Alexander Downer said in a recent speech in Canberra, “An FTA would help engender a broader appreciation—in both countries—of the bilateral security alliance and the manner in which [our alliance], together with the web of U.S. alliances in the region, helps to underpin the stability and prosperity of East Asia and the Pacific.”

### **Trade and Development**

Last week, Washington had another visit from anti-globalization activists. They claim that developing countries have little to gain—and much to lose—from trade and growth. In fact, abundant research demonstrates that developing countries have much to gain from opening their markets to trade—and everything to lose by staying closed to global commerce.

When trade grows, income follows. The World Bank conducted a study of developing countries that opened themselves to global competition in the 1990s, and of those that did not. The income per person for globalizing developing countries grew more than five percent a year, while incomes in non-globalizing poor countries grew just over one percent. Globalizing developing countries sharply reduced absolute poverty rates over the last 20 years, and the income levels of the poorest households have kept up with the growth.

Research also highlights the benefits that developing countries could gain from lowering their own barriers to trade. One study predicts that developing countries would see a \$540 billion dollar annual income gain from the elimination of barriers to trade in goods, with three-quarters of that gain due to the elimination of developing countries’ own trade restrictions. The complete elimination of barriers to trade in goods globally could lift an additional 300 million people in developing countries out of poverty by 2015—more than the entire population of the United States.

Developing countries could realize another nearly \$900 billion in annual gain from the elimination of their barriers to trade in services, a relatively untapped area of liberalization.

Overall, it is estimated that the elimination of global trade barriers would increase world income by \$1.9 trillion each and every year.

Reading about research is one thing, but lowering trade barriers is difficult—even if the payoff is great. That is why U.S. trade policy is concentrating on how to help developing countries gain the benefits of trade and globalization.

One tool is to link U.S. aid to trade by helping developing countries build the capacity to take part in negotiations, implement agreements, and connect trade liberalization to a

program for reform and growth. Trade combined with complementary aid will help fulfill President Bush's commitment "to include all the world's poor in an expanding circle of development."

Last year, the United States provided \$555 million in trade capacity-building assistance to 99 developing economies. We set up a cutting-edge customs service training program at the Port of Shanghai; helped fund the biological control of harmful crop pests in Central America; helped finance an International Labor Organization program that moved 7,500 children from the carpet weaving industry into educational programs; assisted recently discharged soldiers in South Africa and Nigeria to reintegrate into civilian occupations related to trade; and helped Nigeria, Brazil and Ghana draft labor laws to prohibit discrimination based on employees' gender.

A second tool is to offer developing countries special advantages in trade access to the U.S. market. The Trade Act of 2002 extended and expanded preferential openings for four Andean countries, 36 countries in Sub-Saharan Africa, 24 nations in the Caribbean basin, and over 140 developing economies worldwide. America's African Growth and Opportunity Act, for example, has cut our tariffs to zero for 6,500 products, so that more than 92 percent of U.S. imports from these African countries enters the United States duty-free.

Third, the United States recognizes the need to help poorer countries adjust to trade liberalization more gradually through special and differential treatment in agreements.

Fourth, we are ensuring that the flexibilities in trade rules do not constrain developing nations' abilities to deal with critical health problems, such as HIV/AIDS, malaria, and tuberculosis. We need to protect intellectual property so that scientists and businesses will develop medicines that will save lives, while ensuring that poor nations can deal with health crises.

Finally, we intend to employ our activist agenda for free trade agreements to forge economic alliances for growth with developing countries committed to comprehensive reforms. Whereas the IMF, with its formulas for macroeconomic stability, has the potential to assist developing nations' fiscal and monetary policies, free trade can drive microeconomic reforms that move beyond stability to productivity and growth.

Free trade agreements can help establish the basic building blocks for sustainable development, including private property rights, competition, the rule of law, societal gains from the transmission of ideas and technology, sectoral reforms, and regional integration.

Most importantly, free trade is about freedom and open societies. These values are at the heart of America's larger reform and development agenda. The U.S. free trade agenda can help fragile democracies in Central America and Southern Africa, and other

developing nations, just as U.S. trade policy after World War II helped secure democracy and hope in Western Europe and Japan.

From Johannesburg to San Salvador, America is opening a new pathway to promote prosperity, the rule of law, and liberty.

### **The Record to Start...**

The outlook for employing trade to foster growth, security, and development was not encouraging when President Bush stepped into the Oval Office in January 2001.

The idea of “trade in retreat” had so taken hold that it had already migrated from your daily press stories to the more studied assessments of scholars. Last year, Princeton Professor Robert Gilpin wrote in his Global Political Economy that “The prospects for a major breakthrough in trade negotiations are not ... promising.” By the late 1990s, Gilpin added, “the WTO and trade liberalization were clearly on the defensive.”

Indeed, the new Bush Administration faced a Congress that was skeptical, if not hostile to trade. The executive-congressional partnership that had governed trade for more than six decades had broken down. The prospects for the revival of the president’s trade negotiating authority looked dim—especially considering the three failed attempts over the prior seven years.

The failure to launch a new round of global trade negotiations in Seattle in 1999 was both dangerous for the economics of the international trading system and a symbol of the politics of trade under siege.

The effort to bring China and Taiwan into the WTO was stalled, and Congress faced the unhappy prospect of another annual vote on Normal Trade Relations with China.

The enemies of trade were in high spirits. “Fast track is a thing of the past,” crowed Lori Wallach of Public Citizen. Critics like Wallach were touting the failure of Seattle as a great victory for protectionism, and the press was buying their story. Conventional wisdom was that we could not launch new global trade negotiations and surely could not get Congress to pass the President’s trade negotiating authority.

Against this backdrop, many of my trade minister colleagues—with the significant exception of my friend Trade Commissioner Pascal Lamy from the European Union—counseled us not to try to launch new global trade talks. A second failure for the young WTO could be disastrous, they warned.

Others said it was a mistake to take the offensive on trade as the U.S. economy slowed. Then after September 11, pundits puffed that the new trade agenda would grind to a halt.

But even as September 11 brought new priorities to the fore, President Bush chose to forge ahead. And the trade agenda—for the United States and the world—is no longer stalled. Far from it. Through the President’s leadership, we have put trade back in the news—for economic growth, commercial opportunities, development, and foreign and security policy. In doing so, the President recognized that the domestic and international initiatives had to be interconnected, so we had to work on both fronts simultaneously.

The anti-globalizers demanded that the WTO must “shrink or sink.” We chose growth and the expansion of opportunity and hope by adding over 1 billion people from poorer nations to the WTO and by spurring ahead new negotiations to lower barriers to trade.

We completed negotiations to get China and a democratic Taiwan into the WTO: the last step in a 15-year effort for China and a 9-year endeavor for Taiwan. Now we are focusing on the critical implementation of the new obligations.

We launched new global trade negotiations with 142 other economies last November in Doha. We have followed up that start with new proposals for liberalizing trade in services and agriculture, for greater transparency in the WTO, and to resolve a remaining issue for poorer countries that may need compulsory licenses for medicine to deal with epidemics.

We pressed forward on a Free Trade Area of the Americas by agreeing on a negotiating text, schedule, and deadline. This November we look to accomplish key milestones at a meeting of FTAA trade ministers in Quito.

We moved a bilateral trade agreement with Vietnam through Congress, achieving a key step in the normalization of relations with an old foe.

And we passed a free trade agreement with Jordan—our first, but certainly not last, with an Arab nation.

On the domestic front, we rebuilt a majority in Congress to support trade by enacting the Trade Act of 2002, with TPA as its cornerstone.

It took leadership from President Bush and key members of Congress—especially Chairmen Bill Thomas and Max Baucus, and Senator Charles Grassley—to defy the dire predictions.

The Trade Act of 2002 includes much more than the authority to negotiate. The law also includes new liberalizing initiatives and renewals of others. We estimate that about \$20 billion in imports from developing countries will enter the U.S. market through the trade liberalization programs in the Trade Act, including new benefits of more than \$1.2 billion of trade. In addition, the Act gives us guidance on how to negotiate the pursuit of labor and environmental concerns into our work.



The trade bill also included \$12 billion in trade adjustment assistance over 10 years to help train and support America's workers. Just as the President has promoted higher standards and accountability in schools so Americans are better prepared for the pace of change in the 21st Century, we also need to help workers and families adjust to competition by finding new jobs, not by pursuing a losing strategy of trying to deny change.

The Trade Act affirmed Congress' key role in guiding negotiations by establishing a Congressional Oversight Group for trade—which will help consolidate Congressional consultations we already undertake. Indeed, we have consulted with Congress over 300 times on trade matters this year alone. As we approach the final phase of our work with Chile on our FTA, we have already benefited from 32 Congressional meetings this year—with 12 consultations during the past month.

We are already putting TPA to work. I am pleased to announce that today I am sending letters to Congress giving the required 90-day notice of the Administration's intention to initiate negotiations for free trade agreements with Morocco and five Central American countries. I am also delighted to announce that I am sending letters to Congress, as required by TPA, on our free trade negotiations with Singapore and Chile, which we are aiming to complete this year.

This Administration and the Congress are united in a common purpose: to make sure American consumers and businesses have open access to the world's markets, while assuring that our workers and industries are treated fairly. We will insist on maintaining the strength and integrity of America's trade remedy laws, even while we seek to protect U.S. exporters from the unfair application of similar laws by other countries.

### **A Ten-Point Agenda for Trade**

President Bush has been determined to advance the nation's trade agenda on three international fronts: global, regional, and bilateral—while regaining the initiative for openness with the American public and the Congress at the same time. Our idea is to create a web of mutually reinforcing trade agreements in which success in one can be translated into progress elsewhere. Working on multiple fronts enables us to create a competition in liberalization, with the United States as a nucleus for the network.

Looking ahead, America's Trade Agenda will drive a ten-point plan for harnessing the power of openness to grow America's economy, safeguard security, and promote development and democracy.

We will...

First, open new markets and commercial opportunities, for example by completing free

trade agreements with Chile and Singapore this year.

Second, promote security and new business networks, for example by pursuing free trade agreements with important partners, such as Morocco and possibly Australia.

Third, encourage development and democracy through economic-business partnerships by pursuing free trade agreements with the Southern African Customs Union, the Central American countries, and then others.

Fourth, bolster hemispheric prosperity and economic security by creating the world's largest free trade zone—a Free Trade Area of the Americas—by 2005. At the same time we pursue the FTAA in hemispheric negotiations, we will grant statutory trade preferences and negotiate agreements with sub-regions and individual countries, to move step-by-step toward free trade from Alaska to Tierra del Fuego.

Fifth, open world markets for U.S. farmers and ranchers by advancing new, fairer rules that lower agricultural market barriers, eliminate export subsidies, and drastically reduce subsidies that distort production and prices.

Sixth, build better jobs for American workers, including a push for the reduction or elimination of trade barriers on manufactured goods, of which the United States is the world's leading producer.

Seventh, revolutionize a freer global trade in services, opening minds to the great possibilities of this newer area of negotiations and creating opportunities for the 80 percent of Americans holding service jobs.

Eighth, stimulate American and global innovation and creativity by upgrading intellectual property rules to match technological innovation, insisting on enforcement, and assisting developing countries with special needs.

Ninth, aggressively enforce U.S., global, and special trade rules so as to keep our commitment to America's workers and businesses for fair treatment.

Tenth, reform and expand the membership of the WTO by increasing transparency and outside involvement; building capacity for full participation by developing countries; and by adding new nations—especially Russia, without which the “World” in WTO is incomplete.

### **Conclusion**

President Bush understands the need for U.S. trade leadership—and he will use that leadership to expand economic freedom at home and abroad. The White House report on “The National Security Strategy of the United States,” released just last week, sketches

the interconnection between “a world that trades in freedom” and America’s interests in promoting a strong world economy, lifting societies out of poverty, and reinforcing the habits of liberty.

The history of this era will of course be written about how we overcame the dangers of terrorism and tyrants in the Persian Gulf, and how we challenged the United Nations to live up to its founding purpose.

Yet our history will also record how we turned to a page of opportunity for trade, growth, development, and economic security; how we composed a new chapter for poorer families around the globe who could become full participants in the gains of a global economy; how we drew on the links between trade and political liberty; and how we helped the World Trade Organization live up to its founding aims.

That is why trade is important.