

**Remarks by Ambassador Susan C. Schwab
Deputy United States Trade Representative
Thunderbird University
Glendale, Arizona
March 20, 2006
7:00 PM Mountain Time**

As Prepared for Delivery

It is great to be here at Thunderbird. I can hardly think of a better place to talk about the importance of international trade than an institution that prides itself on being “truly global.”

For 60 years, the faculty and students here have understood that connecting the world through commercial engagement is a good idea. This school is a microcosm of a world in which ideas, cultures, creativity and innovation come together.

It has obviously worked. Thunderbird graduates are spread all over the world, helping companies grow, formulating wise good public policy and contributing to the cross pollination at the heart of the 21st century global marketplace.

This evening I would like to discuss how the steady expansion of trade over the last 60 years has helped raise living standards all over the globe and to express concerns that we risk reversing that progress as a wave of isolationist thinking takes root in this country and around the world.

Trade is Key to U.S. Strength and Prosperity

First, allow to make a few basic observations about trade’s importance to this country.

In some ways, trade has made the American miracle possible. This land was discovered by people looking for alternative trade routes. We became a country in a revolt over unfair levies on tea and other goods and grew into an economic powerhouse and our citizens enjoy the highest standards in the world by competing at home and exporting the products, services and culture the rest of the world wanted.

After World War II, world leaders saw the need to build a better world where goods could be traded more freely and where a mutual interest in prosperity would hopefully trump the forces of nationalism, mercantilism and isolation that had created so much pain and misery in the first half of the 20th century.

In a lot of ways, it worked. In the last 60 years, industrialized countries have lowered their average tariff on industrial goods from 40 percent to 4 percent. The results are impressive. Global exports grew from \$58 billion to \$9 trillion.

In the United States specifically, trade has contributed to raising U.S. annual incomes by \$ 1 trillion since 1945, according to the Institute for International Economic. In just the last ten years or so, freer trade has helped raise our GDP by nearly 40 percent and boosted job growth by over 30 percent.

One of the reasons for higher incomes is that exports support better and higher-paying jobs. Jobs linked to exports pay an estimated 13% to 18% more than other jobs.

Trade liberalization since the early 1990s has boosted annual income for an American family of four by \$1,300 to \$2,000 and has offered a greater variety of goods – whether shoes for children, fresh produce in the winter, the latest high tech gadgets, or parts that help American manufacturers be more competitive.

As significant as these figures are, they barely scratch the surface. We are just beginning to tap trade's potential to promote economic growth. The World Bank estimates that the elimination of trade barriers can lift tens of millions of people out of poverty.

We should pursue freer trade not only for the moral imperative of alleviating poverty but also for practical reasons. We want the 95 percent of the people who live outside the United States to be able to live better lives. But we also want them to be consumers of agricultural goods, industrial products and wide range of services that America produces so well.

A Macro View of U.S. Trade Policy

Now let me lay out what the United States is doing to sustain the momentum for additional progress.

The United States remains the global leader in trade. We are still the most open market in the world. We hold up a vision for global trade for the whole world to see. And we are pursuing an exhausting schedule of nuts and bolts negotiations with countries in every part of the world.

In five years, the Bush Administration helped get the World Trade Organization's Doha Development Round launched, secured the restoration of so-called fast-track – which is now called Trade Promotion Authority (TPA) - and then used it to conclude Free Trade Agreements (FTAs) with Chile, Singapore, Morocco, Australia, Bahrain, five Central American countries and the Dominican Republic and now, Oman.

We have also completed negotiations for FTAs with Peru and Colombia, launched talks with Korea and Malaysia, and we continue to negotiate possible agreements with Panama, the United Arab Emirates and Thailand. That is 15 free trade agreements and counting.

Of course, it is not just about quantity. The kind of comprehensive FTAs the United States pursues (really the gold standard for FTAs) seed regional trade, raise standards for multilateral agreements, and promote economic and political reform. Amb. Portman likes to use the phrase complementary liberalization.

I know some people argue that the Doha Round is the grand prize and we should be putting all of our energy into it instead of the myriad FTAs – but, like a lot of you, I assume we can walk and chew gum at the same time and so does Amb. Portman. In fact, he says we should run and chew gum!

Even as we enter into talks with Korea, conclude them with Colombia, or work to get an agreement with Oman approved by Congress, we are still pressing our WTO partners hard to put

meaningful offers on the table so that we can conclude an ambitious and comprehensive Doha agreement by the end of the year.

The Doha Round and the FTAs are both parts of a single vision that President Bush has articulated on multiple occasions – namely, that this country’s prosperity and the increased living standards of people in countries at all stages of development are tied directly to the expansion of trade. Basically, the more the more we trade, the better off we will be.

“Our agenda for freer trade is part of our agenda for a freer world, where people can live and worship and raise their children as they choose”, is the way the President put it last fall at the UN. There he called for a successful outcome of the Doha Round and pledged to remove all U.S. trade barriers and trade-distorting subsidies if other countries will do the same.

The President reinforced that theme when, in his State of the Union address, he declared, “In a complex and challenging time, the road of isolationism and protectionism may seem broad and inviting -- yet it ends in danger and decline.” He also vowed that the United States would lead in establishing the free flow of commerce.

So there you have it. The administration’s trade policy in a nut shell. Nothing equivocating or tentative. It is an agenda in which opportunities abound for companies like yours and people everywhere can enjoy more opportunities and choices – politically and economically.

Troubles on the Horizon

Unfortunately that bold vision and ambitious agenda is running up against a resurgence of protectionism at home and abroad.

At home...the magnitude of the threat was evident in the vote on the Central America Free Trade Agreement last fall. That agreement leveled the playing field. Most of the goods from that region already enter the United States duty-free under existing preference programs. CAFTA simply gave U.S. companies the same access in those markets.

What is more, it carried with it a compelling political goal of shoring up young and sometimes fragile democracies in a region that was in bloody political turmoil less than a generation ago.

And yet, we saw wholesale abandonment by most Democrats and the need for severe arm-twisting of many Republicans. Not the way to pass a trade bill with clear benefits for virtually all Americans.

Reaching further back, we are faced with the irony that the real, on-the-ground successes of NAFTA ten years out have been virtually obliterated by the negative – but empirically false – perception that NAFTA had not benefited the United States. I can still hear Ross Perot warning that 11.3 million U.S. jobs would end up in that “great sucking sound.”

Well, here we are a dozen years later. Nationally, two-way trade with Mexico is up 187 percent. Mexico is Arizona’s biggest export market. Arizona sent \$4.8 billion dollars of good to Mexico last year – about one third of the state’s export shipments.

And then we have the bipartisan political convulsion that overcame the Congress, talk radio and the country over the Dubai Ports World acquisition of P&O. Without rehashing the arguments, xenophobia and economic isolationism will neither make this country safer nor help to pay our national debt.

Abroad...the picture is just as bleak, witness the forces of isolationism in Europe, extending to both trade and investment. Or consider the odd dynamic that currently characterizes the WTO talks. You have Europe hiding behind the advanced developing countries like Brazil and India hiding behind the EU with their excuses not to be forthcoming in agriculture, NAMA, and services market access. This in spite of the fact that these are the very countries that have the most to lose from a failed round.

Sources of Isolationism

Where is the trade skepticism coming from? - Legitimate sources and illegitimate ones.

On the legitimate side is the fact that trade does impact jobs. In addition, our trade deficits are too high. We can't dismiss the concerns of workers who see factories close or jobs outsourced and pretend that the trade imbalance can just keep getting bigger with no cost.

What is illegitimate is how these trends are reported and perceived. Consider trade's impact on jobs, for example. The fact is that trade accounts for a little more than two percent of annual job losses. And over the past two and half years we have added nearly five million new jobs – more than Japan and European Union combined, even though combined they have much larger populations and represent bigger economies.

Or witness the fact that juxtaposed against the largest trade deficit in US history in 2005, our unemployment rate in February stood at 4.8% -- close to its historic low.

Here in Arizona, the growth rate for job creation was 7.7 percent from December 2002 to December 2005. During that same time, national employment growth was a still-solid but less impressive 3.2 percent so

The fact is, consumer preferences, worker productivity, tax policy, and even the weather contribute to the destruction of 15 million jobs in any given year, however, these same factors created 17 million jobs last year.

Still critics of trade have managed to convince people that trade is a primary cause of lost jobs and results in a net loss of employment. Western Union sent its last telegram a few weeks ago. A few of us are old enough to remember slide rules. Would we consider trading away the Internet or calculators to have them back again?

Or, consider the trade deficit. The term itself is misleading. Trade policy has only a limited role in the trade deficit. The rate of economic growth (3.5% last year) that the US enjoys far outpaces that of developed world and all but the hottest advanced developing countries. It would be in our interest to see the rest of the world adopt sustainable economic policies that would fuel their growth, so as to create stronger markets for our exports and less reliance on the US market for other nation's exports. Moreover, as a nation we save almost nothing, while China, Japan and

other trade partners save much more. Who is funding this consumption? Many of our trading partners.

Yes, other nations maintain trade barriers that block, reduce or distort US exports. We need to negotiate them away through multilateral or bilateral means, or aggressively employ the enforcement tools at our disposal to take offending countries to task. We do not underestimate the importance of trade policies that open trade, because they bring with them not just income and jobs, but also enhancements in competitiveness and productivity. However, these tools are necessary, but not sufficient when it comes to the trade deficit.

Whatever the source of this growing sense of isolationism and protectionism – the pain of job loss, uncertainty as the pace of change picks up or misinformation, I think we should all be concerned that the world could be poised for a new era of protectionism. If isolationists win, the agenda I just laid out quickly for you could be in jeopardy.

The real danger is that if we do not keep moving forward, the nations of the world could retreat from trade and actually reverse the gains we have been making in the last half century. It is like riding a bicycle. Keep moving forward or stay in place and fall over.

TPA expires at the end of June 2007. As many of you know, this allows the president to work out a trade deal that is protected from being rewritten by 535 members of Congress. Of course, we work with Congress every step of the way but having only an up-or-down vote on the final accord is the only way to complete a deal.

It was a real battle to pass four years ago and renewal is far from certain. Therefore, we must complete the Doha Round and important free trade agreements like those with Korea and Malaysia, by the end of the year and ensure enactment of Peru and Colombia in advance of TPA's expiration.

And in the meantime, those of us in the administration and people like you – who understand macroeconomics and the importance of trade - need to be vigilant in taking on the public pronouncements and shoot-ourselves-in-the-foot legislative proposals that would undermine a global environment that could and should be sustaining economic growth and prosperity.

Turning Back the Tide – Restoring Support for Trade

I am hopeful we can get the upper hand in this debate but it will take a lot of hard work.

We need to get the public to rise to the challenge of competition rather than retreat in fear. We cannot go back to an era where a handful of rich countries made everything – primarily for each other – while the rest of the world's people lived in poverty and countries were exploited for their raw materials.

Let's not forget when we did retreat in fear – in 1930 with passage of Smoot-Hawley tariff act. The Depression deepened, creating fertile ground for warmongers and despots and hundreds of millions paid a terrible price. It took generations for the world to recover from those popular but incredibly misguided policies. I might point out that we were consistently running a trade surplus in the 1930s. Need I say more?

Two billion people have joined the global trade landscape since the fall of the Berlin Wall and the economic transformation of China and other parts of Asia. The cold hard fact is that the world the United States long worked to create is becoming a reality. All over the world, we are now up against talented engineers, enterprising entrepreneurs and hardworking people trying to give their children a shot at the middle class comfort Americans have long taken as our birthright.

This means competition – yes. But, historically competition is what has made U.S. workers more productive - and when workers are more productive, wages rise.

Only 15 percent of the world is lucky enough to live in a wealthy country by World Bank measurements. Of those countries, the United States has per capita incomes 40 percent higher than the others. So we are doing something right.

Amb. Portman and I and other administration officials will be spending time on the road this year meeting with local business people, journalists, opinion leaders – and thoughtful and informed people like you here tonight in an effort to take on the myths with facts and turn fear about globalization into hope.

We have to tackle some of the major concerns people have about trade today with facts. For example, I know there is a lot of concern about so-called outsourcing. Often, it results in an upside for U.S. workers, making companies more competitive, helping them stay ahead of global competition, and creating high-skill, high-pay jobs here in the United States.

Outsourcing is also a two-way street. It is also called investment. People often forget that over five million American jobs depend on so-called “insourcing” – more commonly called foreign direct investment.

Many auto workers in Ohio and South Carolina and financial service providers in New York and California have jobs because we are open to investment. When these workers shop, go to lunch, or make home repairs economic activity is generated in their communities. There was more good news on that front this week as Kia announced plans for a \$1.2 billion facility in Georgia and anyone concerned about call center jobs should not have gotten on the do-not-call list! Foreign investment is helping Arizona as well. In 2003, 59,800 Arizonans were employed by foreign-controlled companies. People need to see themselves more as beneficiaries of more open trade – not victims of it.

Another concern is China. A lot of people are concerned that China threatens to eat the whole pie. The truth is China is making the pie bigger. Over 300 million people have move out of poverty in China in the last ten years or so. This has occurred during a time of remarkably low unemployment and solid economic growth in the United States. Trade with China is not a zero sum game.

In fact, China is Arizona's biggest growth market. In dollar terms, is China. From 2000 to 2005, export shipments to China increased from \$152 million to \$649 million, an increase of \$497 million.

On the other hand, where jobs do disappear because of international competition, we need to have a frank conversation about how can we better prepare workers for new work opportunities and assist them through painful transitions. Polls have shown public support for trade is stronger when people have a sense that there will be a safety net for them.

The fact is we have Trade Adjustment Assistance for people who lose their jobs due to imports. The benefits include additional unemployment benefits, health insurance assistance and even wage insurance for people who take jobs that pay less than their previous job.

In addition, TAA provides job training assistance so workers can upgrade their skills or acquire new skills for new jobs. We have tapped into the community and technical colleges across this country to better connect the needs of local employers with the training of local workers.

Conclusion

As you can see, there is a lot at stake with our trade agenda. Perhaps never before have there been so many opportunities for American businesses to tap into new markets.

At the same time, the rapid pace of change has bred uncertainty and fear that has been exploited by politicians and commentators. This has in turn fueled isolationist and protectionist thinking that threatens to limit our ability to explore new opportunities.

We must resist the populist temptation to retreat from the market in apprehension. It might feel good in the short run but it will only lead to lower living standards at home and abroad.

The post- World War II wisdom of political and economic leaders - and academicians like those who helped Thunderbird a success - was right. The free flow of commerce raises living standards and creates opportunities and gives nations a sense of share destiny.

If anyone doubts how commercial engagement with the rest of the world doesn't matter, look no further than the two Koreas. One is a vibrant place with a growing middle class and democratic governance. The other is an enclave of human misery.

We have come to an important moment in our history. We can keep moving forward. We can build on the success that has made the United more prosperous and dynamic and raised hundreds of millions out of poverty or we can stop and retrench and risk repeating the mistakes of the past.

You can help make public opinion less vulnerable to the arguments of economic isolationists by letting your shareholders and workers know that they are stakeholders and beneficiaries of a global trading system – not victims of it.

I remain hopeful that we can prevail. It will take a lot of hard work. We all need to do our part so that we can take back the field.