

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

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Acknowledgements and Introduction

- 1) Thank you. What a pleasure to be at Independent Women's Forum, where all issues are women's issues. Thanks to Michele Bernard and Mary Arnold for providing the chance to address all of you on my most pressing women's issue- international trade and competitiveness.
  
- 2) The theme of this gathering – what the United States must do to succeed the global economy – is among the most important issues our generation faces. We cannot stem the trend of globalization. Nor would we want to. After all, the United States helped create the post-war international system that has made the flow of goods and services a force for increased peace and prosperity for the United States and most of the rest of the world. Our challenge is to have the vision and courage to adapt to a rapidly changing, more competitive trade arena. Therefore, what I would like to do today is to offer a few suggestions about what we can do in the near term to

enhance our prospects for success. Just as important, I will offer suggestions of what *not* to do.

- 3) The best way to articulate some of the “do’s and don’ts” of global trade is to go through key items on our trade agenda – notably the free trade agreements pending before Congress and our trade relationship with China. How we manage the challenges and opportunities incumbent on that particular trade relationship is instructive to our broader quest to stay successful in the global economy. Therefore, I will devote most of my remarks to that relationship.

### The Trade Agenda for the Remainder of the 110<sup>th</sup> Congress

- 1) The final session of Congress in the Bush Administration offers unprecedented opportunities for lawmakers to promote continued U.S. success in the international marketplace. I am pleased the Peru Trade Promotion Agreement is on the way to the President’s desk with an incredibly strong bipartisan vote of 77-18 last night. But the pending agreements with Colombia, Panama, and Korea are still out there. Here two basic reasons why continued U.S. economic success and political security is linked, at least in part, to their approval.

2) The first -- and perhaps most compelling reason -- are the potential economic benefits from these high quality free trade agreements (FTAs.) Broadly speaking, 95 percent of the world's consumers live outside U.S. borders. Opening new markets is vital to our economic future well-being. Export expansion, in fact, accounted for 40% of U.S. economic growth over the last four quarters. So let's keep exports – and our economy – growing!

3) The Agreements with Peru, Colombia, Panama, and Korea will give U.S. products and services duty-free access to markets with a combined population of 124 million people.

a) It is important to remember that these FTAs will make a one-way street a two-way street, (particularly true of Latin FTA's).

b) In addition, they go beyond cutting tariffs. They also eliminate non-tariff barriers such as tax, regulatory, and procurement policies that make it hard for U.S. manufacturers, farmers, and service providers to compete in these markets.

c) They promote transparency, intellectual property protection, and the rule of law.

d) In addition, these FTAs include enforceable obligations concerning the fundamental rights of the ILO and key multilateral environmental agreements. Lawmakers who have long

expressed a desire to shape the terms of U.S. trade agreements have a great opportunity to do just that.

4) Another reason why these agreements are linked to the long-term success of the United States in the international economy has to do with security and foreign policy considerations.

a) They represent a chance to show other countries throughout the world that market-oriented economic growth, political freedom, greater transparency, and respect for the rule of law mark the path to a better life for all people.

b) When our trading partners determine that deeper and stronger trade ties with the United States will benefit their people, the United States must not turn away.

5) In essence, to keep the United States strong and competitive we must engage in trade, improve the terms of trade, and utilize trade to promote stronger economic and political ties.

6) What we must *not* do is let important opportunities die on the vine.

a) Failure to enact the remaining agreements will not create a single job in the United States, promote labor protection, clean up a

single stream, or prevent the extinction of one endangered species in Latin America.

b) Failure to enact them will show the world that the U.S. is an unreliable trading partner and ally.

7) The principles apply to our relationship with China as well. It is this subject to which I devote the remainder of my remarks. The fact that I am not focusing my remarks on the Doha Round reflects only a lack of time – not a lack of will or priority!

### Mutual Benefits of Engagement with China

1) The policy of promoting China's active participation in trade and its adherence to the norms of the global trading system -- has worked well for the last 30 years. The economies and people of both our economies have benefited.

a) Over the past 15 years, bilateral trade in goods between our two countries has increased by some 1200 percent! Over the past six alone, bilateral goods trade has nearly tripled and services trade has more than doubled. Investment flows remain strong.

- b) China's economy has grown by nearly ten percent a year for the past 20 years, and nearly 400 million people have been lifted out of poverty. China has also emerged as an enormous, rapidly-growing market for U.S. goods and services, helping to sustain strong U.S. economic growth rates.
  
- i) U.S. exports of manufactured goods, agricultural products, and services have grown an average of 23 percent a year since China joined the WTO in December of 2001.
  
- ii) China is today our fourth largest export market, and the fastest growing export market for the United States in the world.
  
- c) In addition to specific trade data, there are positive indications of the overall direction of our relationship with China.
  
- i) This includes the growing government-to-government contacts, with new fora like the Strategic Economic Dialogue to complement existing dialogues like Joint Commission on Commerce and Trade
  
- (1) In fact, I will be heading to Beijing next week for the latest JCCT and SED meetings.

- ii) It also includes China's substantial achievements in meeting its WTO reform commitments.

### Bilateral Trade Challenges

- 1) These tremendous achievements of bilateral economic engagement notwithstanding, we must acknowledge there are problems in the bilateral economic relationship.
  - a) Because China's rise has coincided with sweeping changes in our domestic economy, many Americans associate worries about their long-term job and wage prospects with China.
  - b) In addition, U.S. businesses question whether the playing field is level.
  - c) Among the chief reason workers and businesses question the benefits of our trade relationship is the bilateral trade deficit. We know our trade imbalance is due to a number of factors, not all of which are trade related -- from differences in savings rates to shifts in assembly to China from other Asian countries. Still, as USTR stated in our Top to Bottom Review of Chinese trade ties 18

months ago, we must work for more “equity and balance” in our relationship with China.

d) Another serious matter is intellectual property rights protection.

Last year, 81 percent of counterfeit and pirated items seized at the US border were from China, up from sixty-nine percent the year before that. China can – and must – do better. The problem is one of enforcement, which we are attempting to address by working with China and by asserting our rights within the WTO.

e) Yet another area of contention has been government subsidies that violate WTO rules. On this, the wisdom of the Administration’s policy with China stands for all to see. Under President Bush, the United States has engaged in dialogue when possible and used legal action when necessary. This is policy that had delivered concrete results.

i) To demonstrate our resolve to stand up for U.S. businesses and workers, we challenged these subsidies at the WTO. I was pleased to announce last week that China has agreed to end these subsidies.



- ii) This was a major victory for U.S. workers and businesses as well as for the rules-based trading system.
  
- f) These subsidies, which China provided to Chinese and foreign manufacturers in China across a broad range of sectors, created an uneven playing field for U.S. producers trying to sell to China, in the U.S. and third country markets. This hurt U.S. small and medium-sized businesses and their workers the most.
  
- i) The United States was resolute in its determination to stand up for U.S. interests and that resolve paid off. We also believe this was the right decision for China to take in its own interest.
  
- g) Another concern is a systemic lack of transparency and weakness in the rule of law in China. China has improved the transparency of its legal and rulemaking processes, but we'd certainly like to see more progress in this area. Among the steps China could take is to establish a mandatory process for public notice and comment on proposed laws and regulations.
  
- h) As we head into the holiday season, product safety is yet another matter that continues to worry many consumers and draws intense

scrutiny from Congress. We expect that the goods we buy are safe for ourselves and our families.

i) The President reacted quickly and thoughtfully and created an inter-agency Import Safety Working Group, of which USTR is a member. This group does not target China. It targets the safety of all products regardless of country of origin.

(1) The working group report came out in early November and will help ensure that the largest open market in the world is also safest market in the world.

ii) After an ill-considered initial response that only enhanced concerns about the “Made in China” label, China has now shown that it is beginning to recognize this issue is about consumer confidence in Chinese products in the largest market in the world.

i) In addressing all these issues, the Bush Administration is using all the tools at its disposal to remedy these challenges with the goal of permitting more trade and investment to occur. That, in a nutshell, is at the core of engagement. And only through engagement with the global economy can the United States

succeed in the global economy. As I observed with the subsidies case – we aim for real results for U.S. business and workers - and not political statements.

- i) Generally, we will try first to engage through bilateral dialogue, including through fora such as the Joint Commission on Commerce and Trade. Why? Because it is often the most effective means to resolve problems.
- ii) But where bilateral dialogue is not successful, we have - and we will continue - to act quickly, firmly, and decisively, using both domestic U.S. trade remedies and dispute settlement before the WTO.
- iii) The prohibited subsidies case was one of four formal WTO cases we have brought in the past 14 months and we are determined to press our cases vigorously in the months ahead. Resorting to dispute settlement is itself a form of engagement. It is evidence of two countries working to resolve disputes about obligations through neutral, legal mechanisms. WTO Dispute settlement is designed to *prevent* trade wars rather than *fuel* them.

## The Biggest Challenges: Economic Fear and Neo-Mercantilism

- 1) I have gone through some specific issues. But I believe the more important threats to strong and healthy trade ties involve broader issues concerning what I would call the mindsets of our two countries. This gets to the heart of whether the United States and China fully embrace how their success in the global economy is linked to the success of the global economy itself.
  
- 2) Both countries, in their own ways, must steer clear of economic retrenchment.
  - a) In China, economic retrenchment seems to be taking the form of shielding China's economy from some of the very market forces that have allowed it to grow so rapidly.
    - i) Over the past year or two, we have continued to see signs of slowing or even backsliding in market-oriented economic reforms.
  
    - ii) Recent actions by the Chinese government, taken together, provide reason to worry that China will use its regulatory and

other policies to develop so-called “national champions” and tilt the playing field against foreign competitors.

iii) There are signs that state planners may seek to steer China down an economic development course that differs from the direction and velocity advocated by Deng Xiaopeng.

Protecting national champion industries at home is not in China’s best interests. Failures of this approach in other countries are evident, and China’s recent history shows that openness yields growth, innovation, and competitiveness. Protectionism and isolation from market forces only yields inefficiency, corruption, and trade frictions – and that is not the path to a more “harmonious society.”

3) As I said a moment ago, I am concerned about what I called the mindset of *both* countries when it comes to the global economy. In the United States, economic retrenchment takes the form of proposed legislation – some of it ill-conceived - to impose tariffs, or opposition to the pending trade agreements before an honest debate on their merits has taken place.

a) Trade has become the poster child of all economic anxiety -- even though economists tell us that trade accounts for only two or three

percent of annual job losses. To hear the trade skeptics talk, who would think we have created over 8 million jobs in the last four years and manufacturing output is at an all-time high?

b) Unfortunately, China has become the chief target for this rising sense of angst and the protectionism it seems to breed.

c) The myriad benefits of our two-way trade and investment relationship are drowned out by the drumbeat for legislation to “get tough” with China – often with little regard for the consequences or WTO-consistency of that legislation.

i) It is likely that both Houses of Congress will grapple with bills related to currency, trade remedies, product safety, and enforcement procedures next year. They are crude tools for a complex task. They focus on the wrong issues and are likely to do nothing to help or, even worse, will hurt the American workers, farmers, and entrepreneurs they purport to help.

ii) Three centuries ago Thomas Hobbes proclaimed life “nasty, brutish and short.” Today, we have Lou Dobbs presenting life as unfair, isolationist, and doomed. For people who subscribe

to this view, all the ills of protectionism can be cured with more protectionism.

- iii) Congress should be wary of quick-fixes for complex international economic challenges. Leaders from both parties would be wise to be deliberate and proceed with caution. What they say and do matters - and the markets are watching.

## Conclusion

- 1) What does America need to do to succeed in the global economy?
  - a) We need to engage not retreat.
  - b) We need to seize opportunities to open markets to U.S. goods and services as we stay open to the products of other countries.
  - c) We need to foster cooperation with loyal allies and not rebuke their efforts to forge closer trade and investment ties.
  - d) We need to raise the bar for how trade is conducted and shape its terms and standards so that trade's benefits will be broadly shared.
  - e) We need to tackle thorny problems with diligent dialogue and unbending resolve – and not use political tools for resolving economic disputes.
  - f) And we need to address many of the issues underlying U.S. competitiveness that the IWF has focused on today.

- 2) This is the essence of what has been a highly successful seven years in our nation's trade history. We must complete the important work we have started and pave the way for future success.
  
- 3) As you grapple with how the United States can succeed in the global economy in this time of rapid change and closer integration, I urge you to keep in mind how important it is for veteran trading powers such as the United States and major new actors, such as China, to champion the benefits of the free and fair flow of commerce.

Thank you.