

Opening Statement of Deputy U.S. Trade Representative Susan C. Schwab

U.S. Trade Representative-Designate

U.S. Senate Committee on Finance

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Thank you Chairman Grassley, Senator Baucus and distinguished panel members.

I appear before you today as the President's nominee for United States Trade Representative; grateful, honored, and excited about our trade agenda. If confirmed, I will have the great fortune to lead an agency that can boast one of the most talented teams of professionals I have ever met.

First, I would like to introduce my parents Gerald and Joan Schwab and my sister Teresa Marshall and to thank them.

I had the opportunity to meet with many of you in the last few weeks to discuss your hopes for, as well as your concerns about, international trade. I appreciate the time you have spent with me and have found our discussions very constructive and informative. They have also reinforced in my mind the Senate Finance Committee's proud tradition of crafting sound public policy through the thoughtful bipartisan exchange of views.

President Bush has made trade one of the top priorities of his administration. He has entrusted this priority to two remarkable public servants - Bob Zoellick and Rob Portman. Under their leadership, the United States has returned to the negotiating table, has established U.S. leadership in multilateral trade talks, has opened new markets for American products and services and has pointed the way toward a better future for all nations. I have been particularly grateful for the opportunity to be part of Rob Portman's team over the last six months and to participate in the development and execution of our trade agenda.

As we reach a critical juncture in the effort to build on this administration's trade success, I am honored to have the President's trust. If confirmed, I look forward to a seamless transition in the pursuit of his trade agenda.

Guiding Principles

Today, I would like to lay out some of the broad principles that will guide me in working with you to pursue the President's agenda and to establish a trade legacy that we can share as public officials and as a nation.

First, when it comes to international trade, I believe markets work. While the benefits of trade are not always enjoyed equally, the outcome is

generally better for all concerned than the alternative – namely, governments trying to micro-manage through protectionist solutions. In theory, nations of the world would all be better off by unilaterally opening our markets. However, as a practical matter, it is better for us to negotiate and enforce good bilateral, regional and multilateral deals to achieve market-based global trade outcomes. These agreements make free and fair trade more doable and spread the benefits even more broadly.

So I guess I consider myself a free trade activist and a free trade pragmatist.

Second, I like to get things done. I am a problem solver. And the most pressing problem we face in trade today has been the erosion of America's traditional bipartisan support for open trade and the pro-trade agenda that has so benefited the United States since the Eisenhower era.

If confirmed, I promise to continue the bipartisan approach to U.S. trade policy embraced by the President and Ambassador Portman – and by the first U.S. Trade Representative I worked for, Bob Strauss. I will reach out, listen and consult with members of Congress on both sides of the Capitol and both sides of aisle as well as with your constituents and interested groups across the country.

Third, I intend to work with you and your colleagues, as partners, on our pro-growth agenda; to bring the Doha Round of the World Trade Organization (WTO) to a successful conclusion, to broaden and deepen our trade relationships on a bilateral and regional level, and to rigorously enforce existing trade agreements and the rules of trade.

Why do I believe in free and fair trade? Simply stated, seeing is believing. Open trade has a long and compelling track record of success.

Since the nations of the world moved away from the disastrous protectionism of the early 1930s, we have seen prosperity and freedom take hold on a global scale. Even as other nations have industrialized, innovated and grown more prosperous through trade, the United States continues to lead the world across so many dimensions of economic health. Trade is not a zero sum game. That trade can be a win-win is one of the sure bets of international economics.

Here are a few statistics to illustrate:

Today, U.S. annual income is \$1 trillion higher - or \$9,000 on a per household basis - due to increased trade liberalization since 1945, according to the Institute for International Economics.

We remain a manufacturing powerhouse. The United States is still the largest producer of manufactured goods in the world. One in five

manufacturing jobs is linked to exports. And, jobs tied to exports of goods pay 13-18 percent more than jobs not supported by exports.

In the farm sector over 900,000 jobs are tied to exports. One out of three acres in this country is planted for export, and exports account for 27 percent of all farm receipts.

In the rapidly-growing and innovative service sector – where Americans have a particular edge – exports have almost doubled in the last ten years and are now approaching \$400 billion a year.

Of course, exports are only half the story. Imports also contribute to our prosperity and high standard of living. Tariff cuts and income gains connected to the WTO's Uruguay Round and the North American Free Trade Agreement have provided annual savings for an average family of four of \$1300 to \$2000. Thanks to reasonably priced consumer goods, American families - even those with moderate or low incomes - are able to obtain the basic goods for comfort and security. Thanks to trade, a young couple can keep shoes on quickly-growing feet, furnish a home with linens and furniture and make it a place of comfort and fun with electronic goods, toys and appliances.

True, we have large trade deficit. This raises legitimate concerns about its future sustainability. However, we know that the trade deficit is

caused primarily by a variety of macroeconomic factors not directly related to trade, such as the relative rates of growth, and savings and investment levels among trading nations.

But even with concerns about the trade deficit, last year the U.S. enjoyed a GDP growth rate of 3.5%. And in the first quarter of this year, the economy grew at an astonishing 4.8% annual rate. Unemployment is at a very modest 4.7%. The productivity of American workers has increased at an annual average rate of 3.5 percent, while real compensation (wages plus benefits) of manufacturing workers has grown at a very respectable 3.6 percent annual rate. Overall, the performance of the U.S. economy is the envy of much of the rest of the world.

And yet, we find ourselves today in an odd circumstance in U.S. trade politics. We see the clear and very real benefits of trade on the one hand and rising public anxiety and polarizing debates about trade-liberalizing agreements on the other.

What does all of this tell us? Why does there appear to be a disconnect between the economics and the politics of trade and what can we do about it?

Unfortunately, there are those who use anecdotes and data selectively or out of context to stoke uncertainty and fear among people and trepidation

among their elected officials when it comes to trade. The link these critics make between trade and unemployment, for example, is belied by the fact that trade accounts for the loss of fewer than 3 out of every 100 jobs lost in the United States.

Over the last decade, the U.S. economy, has, on average, created roughly 17 million jobs a year but lost roughly 15 million to productivity enhancement, changing consumer tastes and other factors, of which trade is but a minor one. That is a net gain of roughly two million jobs. The challenge is to have workers and jobs match up and to prepare workers for the jobs that are being created. Education and training are keys to preparing workers for the high-paying, knowledge- and skill-intensive jobs of the future. And to ensure that these jobs continue to be created, we need to make sure the United States remains a hospitable place for doing business through good tax, regulatory and trade policies as well as through the quality of our education and learning.

I do not want to discount the two to three percent of those who may lose their jobs because of the trade. The lives and livelihoods of these individuals and the communities in which they live should be and are a concern to all of us. But as we look for ways to help them, we should not jeopardize our nation's future economic growth.

Historically, organized labor in the United States has been smarter and more farsighted than their foreign counterparts. We can make sure trade continues to create opportunities for workers, and workers help create opportunities to trade.

As public officials, we must resist feeding apprehension and fear. We can and should work together to craft policy solutions and alternatives based on reality not perceptions.

One of the most important contributions I would hope to make as U.S. Trade Representative, if confirmed, is to help close that disconnect and to demonstrate that trade represents a new opportunity to not merely sustain the American dream but to improve upon it. To this end, I make a pledge to you here today that, if confirmed, I will be an honest partner in the effort to create a strong, unified national voice on trade.

Experience and Agenda

In the six months I have served as Deputy U.S. Trade Representative, I led efforts to close free trade agreements with Peru and Colombia. I have worked diligently with our trade partners in Central America to resolve sensitive and difficult issues in order to ensure successful implementation of

our trade agreements. I have been engaged in our WTO Doha Round strategy and participated in the December Ministerial meeting in Hong Kong. Most recently, I worked to resolve a dispute with our friends in Canada over softwood lumber that had been bitterly litigated for over 20 years.

None of these breakthroughs would have been possible without an honest, sometimes blunt, but always respectful exchange of views - along with the willingness to compromise when possible and the strength to stand firm when necessary.

Negotiating and making policy this way should not be stunning rarity but the norm. The Senate Finance Committee has always conducted itself in this manner, as I recall from the eight years I spent with Sen. Jack Danforth as he chaired the Trade Subcommittee. I was molded by this tradition and, if confirmed, you can be sure I will work every day to honor Congress, the President and the American people by living up to that tradition.

Of course, it will take more than a willing spirit to forge good trade policy in the next few years. It will require us to keep the multilateral process on track in the WTO, to negotiate commercially significant free trade agreements, and to enforce vigorously the terms of those agreements and to uphold the rules of trade.

A top priority is the successful conclusion of the Doha Development Round. No country has done more than the United States to launch and sustain efforts for a comprehensive and ambitious multilateral agreement. The United States remains committed to its success. Just two weeks ago I was in Geneva with Ambassador Portman to continue the push for an agreement in the coming weeks and months that will be ready for congressional consideration before Trade Promotion Authority expires at the end of June, 2007.

The United States has put a lot of emphasis on agriculture in this round and put forward an ambitious and forward-looking proposal last fall in an effort to jump start the talks. Why? Because agriculture is where we find many of the world's highest barriers and, therefore, where we find a potential source of major benefits. The average U.S. tariff level in agriculture is 12 percent, compared to a 62 percent global average tariff.

Doha represents an historic opportunity for economic growth and increased living standards for all countries – but especially developing countries. According to the World Bank, 63 percent of the gains to developing countries from full global trade liberalization would flow from agricultural liberalization. And, nearly all these gains from agriculture would come from improved market access. Indeed, half of the gains the

developing world can expect to enjoy from fully open trade in agriculture would stem from liberalization by the developing countries themselves.

Of course, the United States is also determined to open new markets for industrial goods and services. These are categories where developed and developing countries alike also stand to gain – whether as exporters or importers.

Simultaneously, we have an equally ambitious agenda for bilateral and regional agreements that will broaden and deepen trade relations with key, like-minded countries. This parallel effort will also help to establish the breadth and scope of potential multilateral agreements in years to come by setting precedents and by demonstrating the real benefits of free and fair trade.

You have before you the Oman FTA, the Peru Trade Promotion Agreement, and will shortly see us notify the Colombia Trade Promotion Agreement. Negotiations with Korea, Malaysia, and several other trading partners also hold the promise of opening up more opportunities for American workers, farmers, manufacturers, and consumers with expanded markets and growing purchasing power around the world.

The Administration has already made historic progress in opening markets and increasing both the quantity and quality of trade between the

United States and other nations. In the last five years, Congress has approved free trade agreements with 12 countries – for a total of 15. Agreements with Oman, Peru and Colombia are pending, and agreements with 11 more countries are in negotiation.

Thanks to lower tariffs and the removal of other barriers, 52 percent of our total exports go to our free trade partners. What is more, our exports to the four free trade agreement partners implemented under this Administration with a track record long enough to measure are growing twice as fast as our trade with countries with which we do not have free trade agreements

Of course, these free trade agreements go beyond merely cutting tariffs. They also protect intellectual property rights and remove non-tariff barriers, such as arcane procurement policies or non-scientific sanitary guidelines in agriculture, to make sure American producers will fully benefit from more open trade.

However, negotiating new agreements must be accompanied by the active enforcement of existing ones. This is a fundamental matter of credibility. We are willing to use all the tools we have – either in U.S. law or in the WTO or in bilateral dispute procedures - to make sure American

employers, workers and farmers are treated fairly. The Bush Administration's track record on this is strong:

For example, we successfully challenged Mexico's unfair tax on beverages sweetened with high fructose corn syrup. We stood firm for years over Canada's subsidized lumber exports. We insisted on science-based policy by Europe on biotech foods. And, we continue to show resolve in the dispute with the European Union over Airbus.

Demonstrating our commitment to ensure trade rules are fully enforced is particularly important with regard to China. This was one of the key outcomes of USTR's recent Top-to-Bottom of China Trade Policy. It also influenced our approach to the most recent meeting of the Joint Commission on Commerce and Trade (JCCT). Actions the United States has taken to reinforce this message include the auto parts case we took to the WTO in March, the earlier semiconductor and Kraft linerboard cases that were resolved, and the Special 301 action we announced late last month to conduct a provincial level review of China's intellectual property rights policies. Judging from the deliverables from the most recent JCCT meeting, the Chinese are beginning to understand that we expect China to conduct itself as a mature trading partner that has benefits greatly from the rules-

based trading system and should, therefore, reinforce that system by abiding by it.

If confirmed, I pledge to continue to rigorously enforce existing trade agreements and to speak credibly about honoring the rules-based trading system both at the bilateral and multilateral level. In this regard, I must commend and thank this Committee, the Ways and Means Committee and the Congressional leadership for your work in recent years to bring U.S. law and practice into compliance with our own obligations under trade agreements. This includes, most recently, elimination of the grandfather clause under FSC/ETI, along with previous action on FSC, the repeal of the Byrd amendment, of the 1916 dumping act, and of the Step 2 program for cotton. These actions make it much easier for the U.S. to stand up at the WTO and lead by example.

Since last fall, President Bush has used two high-profile speeches to bolster the case for free and fair trade. One was his speech before the United Nations last September in which he emphasized the importance of the Doha Development Round. The other was his State of the Union address in which he warned that against the danger of isolationism, especially economic isolationism, and extolled the importance of U.S. competitiveness to our long-term economic security and prosperity.

Anyone who has traveled around the world has seen the alternative to open commerce – low productivity, stifled entrepreneurs, low levels of innovation, double-digit unemployment, declining living standards and rising fears among people and employers about the future.

Since the end of the Cold War, more and more people are able to pursue new economic opportunities. Ninety-five percent of the world's population lives outside our borders. We should welcome the growing numbers of people who want to emulate U.S. democratic and economic traditions, consume our products and services, and join us as stakeholders in a world where free and fair trade means an ever-growing pie.

It is my firm hope that we can work together as public servants to stir the confidence of the American people that we will not merely endure the historic transformation we are living through but lead it, shape it and reach new heights because of it.

If confirmed, I will work tirelessly toward fulfilling the President's vision of a world where the free flow of commerce gives people everywhere more choices, more opportunities and more hope. I am eager to work with you on this important mission.

Thank you for your attention. I look forward to answering your questions and hearing your thoughts.