

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

The Business Council

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(as prepared for delivery)

Introduction and Acknowledgements

- Thanks Jim [McNerny, Boeing President, Chairman and CEO] for that gracious introduction. And thank you for tireless work as Chair of the Business Council.
- Let me also thank Jim Owens [Chairman and CEO of Caterpillar]. Congratulations on your recent appointment by the President to the Advisory Committee for Trade Policy and Negotiations. I look forward to working with you.
- After the compelling case Sec. Rice made earlier about the geopolitical and strategic importance of trade, it is hard to believe we are fighting an uphill battle. But we are.
- All of us here know that trade is one of the best ways we have of generating prosperity at home and economic development overseas. Harry Truman used to joke about his search for a one-handed economist. But when it comes to trade, there is no viable “on the other hand.” Economists of every school of thought agree that trade is vital to economic competitiveness and growth.

- President Bush understood this early on. He has succeeded in getting the United States back to the negotiating table and reestablished this country as a driving force for trade liberalization.
- In the last six years, we helped launch the World Trade Organization's Doha Development Round and played a key role in bringing Russia and Vietnam into the WTO by concluding strong market-opening bilateral agreements with these countries.
- When President Bush took office, the United States was a party to Free Trade Agreements (FTAs) with three countries. Now we have agreements in force with 11 more countries, with one pending implementation and four that we hope will soon be considered by Congress.
- I would note that our exports to our FTA partners are growing twice as fast as our exports to non-FTA countries and the jobs linked to exports pay 13 to 18 percent more than those not supported by exports. It is clear that these market-opening efforts are bearing fruit.
- We have also stayed vigilant in using all the tools we have to ensure that the rules of trade are fair and that our trading partners honor their commitments to these rules. We have been a party in over 70 WTO cases - on everything from high fructose corn syrup to biotechnology, to steel, to aircraft subsidies.

- We have also devoted considerable attention to enforcement with regard to China. Now that China has completed its transition as a member of the WTO, we have moved into a mature relationship with this valued trading partner. That means insisting China abide by its WTO commitments. To that end, we have initiated WTO proceedings on auto parts and intellectual property rights enforcement.
- As we have moved with determined energy on trade liberalization, we continue to see that globalization not a zero sum game. Trade expansion tracks closely with income gains. A large trade deficit notwithstanding, U.S. Unemployment 4.5 %, GDP in 2006 was a solid 3.3 percent. Real compensation has been rising since 2001, along with manufacturing output and productivity. In fact, trade (led by exports), was at the heart of our economy growth in the last quarter of 2006.
- But we have a perception problem. Demagogues and protectionists can take isolated points of data and selected anecdotes about job losses to stoke fear and anxiety. Three centuries ago Thomas Hobbes proclaimed life “nasty, brutish and short.” Today, we have Lou Dobbs presenting life as unfair, isolationist, and doomed.
- To be sure, competition and a rapidly changing international marketplace can lead to economic displacement in some cases. One reason for the perception problem is that the gains from trade are diffuse and the pain from trade often concentrated.

- But Globalization is here to stay. Globalization presents us with new challenges along with the new opportunities. We need to help people and communities that are negatively impacted. We need to do so with education and training and other means that do not damage the potential of the rest of the country.
- From Bill Gates to Larry Summers to Alan Blinder, there is a growing chorus of voices urging improvements in our education system so that we can stay innovative and competitive.
- President Bush has been there for some time with No Child Left Behind and the American Competitiveness Initiative.
- They are right. The protectionists are wrong. Protectionism is the surest way to limit the gain and broaden and deepen the pain of doing business in the modern world.
- My message to you today is an earnest call for getting energized to make the case for trade.
- As I go through some of the items on our trade agenda over the next few minutes, I know you will agree there is a lot at stake.
- As Margaret Thatcher might say – this is no time to go wobbly!

Update on Doha

- First, I want to underscore that the U.S. commitment to World Trade Organization's Doha Development Round remains strong as ever.
- Agriculture continues to be the stumbling block but gaps in ambition also remain when it comes to services and manufactured goods.
- President Bush has made it clear the United States is ready to do its part – whether on market access or on trade-distorting subsidies. But we cannot do it alone. The responsibility must be shared by all WTO Members.
- There is no escaping the fact that market access is the key to success. It is the only way to create new trade flows – which will spur development that is at the heart of the Doha Round's agenda.
- As a practical matter, only an ambitious agreement will clear Congress. The United States will not agree to a deal that requires sacrifice from American farmers, ranchers, manufacturers, service providers and consumers but offers them no benefits.
- During a visit to India last month, I was pleased G-4 colleagues showed a sense of urgency to achieve a balanced, comprehensive round sooner than later. In the coming weeks and months, hopefully, we will be able to translate urgency into action.

- You can expect flurry of meetings and interactions at all levels on how to bridge the gaps – on bilateral basis, in small groups such as G-4, G-6, or in other combinations among the WTO Members.
- We are targeting the end of the year for completion but content – not calendar will determine when we have completed our work successfully.
- Allow me to make a brief observation here about Trade Promotion Authority – which I will discuss more in just minute. Without TPA, there will be no Doha Round, no additional free trade agreements (FTAs.) The United States will effectively be off the field as other major trading partners push ahead with bilateral and regional deals.

Free Trade Agreements

- Second, we are at a crucial junction on bilateral activity.
- As Secretary Rice made clear. Peru, Colombia and Panama are more than just opportunities to level the playing field for the United States in those agreements. They are integral to security of the region. They represent opportunities to shore up our relationships with leaders and countries that have wisely chosen democracy and open markets.
- In addition to these opportunities to deepen and strengthen ties with countries in our hemisphere, we have a reached a landmark FTA with Korea.

- The KORUS FTA is not only the most commercially significant agreement since the FTA with Canada nearly 20 years ago. It is also our first FTA with a major Asian trading partner.
- The KORUS FTA is a remarkable opportunity for companies like yours. When this agreement is implemented, your employees and shareholders will enjoy access to this increasingly prosperous market of 49 million people that has also been highly protected.
- Not only will Korea bring down tariffs as a result of this agreement. It has agreed to eliminate a number of non-tariff barriers in its tax and regulatory system.
- I would note that this is a Model FTA for investment and financial services. It is a strong agricultural package and it is exceptionally strong in manufacturing and includes an innovative approach to leveling the playing field in autos.
- True, some industries will wish they had gotten more market access more quickly for their products. Others will wish we could have denied Korean products faster access to the U.S. market.
- Welcome to the world of negotiating high-quality FTAs with large trading partners! This was a tough negotiation but we managed to achieve a “gold standard” FTA.

- Members of Congress and the business community have long urged concluding FTAs with large economies. We have succeeded in doing this. Now what will Congress do?
- I am confident that the more U.S. stakeholders learn about Korea, the more they will heartily endorse it and work for its approval by Congress.
- Like Peru, Colombia and Panama, the KORUS FTA also carries with it strategic significance as well as economic opportunities – a way to ensure a permanent U.S. commercial footprint in this vital region of world.

Enforcement

- A third major area of our focus is enforcement. We continue to use all the tools at our disposal to make sure trade rules are fair and that our trading partners live up to their obligations.
- We cannot expect to have support for trade if people not see it as transparent, rules-based and fair. The United States has brought over 70 dispute settlement cases at the WTO – from high fructose corn syrup to apples to auto parts to steel to biotechnology – and brought the first cases against China. And of course, we are taking a patient but principled stand with regard to Europe's subsidies to Airbus.

- This is not a new policy. Nor does it imply a more confrontational stand toward any of our trading partners, including China. Our recent cases on prohibited subsidies, IPR and market access have been in the works for years. After all, December marked the 5th anniversary of China's WTO accession at which point it was to be fully WTO compliant.
- China is a valued, mature trading partner. Our enforcement actions simply fulfill commitments we made in our Top to Bottom Review of our trade relations last year.
- We are just doing our job and will not be deterred from doing so.

What is at Stake

- I think it is clear from this brief overview that it is not an overstatement to say what is at stake over the next year is the fate of U.S. leadership on trade.
- So what is next and how do our trade politics intersect with the agenda?

Critical Steps in the Next Few Months

- The agenda is as ambitious as at any time in U.S. history, and some worry about it stalling out.
- But there is no reason why the trade agenda should stall. Members of Congress from both parties, including the Democratic leadership, and the

chairmen of the House Ways and Means and Senate Finance Committees, understand that trade is not an area where the country can settle for a partisan impasse for a few years.

- In January, Senate Finance Chairman Baucus wrote an op-ed lauding the importance of trade. Three weeks ago, Ways and Means Chairman Rangel said he was amenable consent to conditional extension of TPA for Doha. As Chairman Rangel said, he and other leaders, "...recognize that if we don't move forward in trade and be competitive, then we'll be moving behind."
- Not long after the election, we began working with Congressional trade leaders, including Chairman Rangel, Congressman McCrery; Chairman Baucus, and Senator Grassley on a new template regarding trade-related aspects of labor and environmental safeguards. The key challenge – could we find a bipartisan path forward that would promote the near term trade agenda and not jeopardize long-term U.S. interests in a pro-trade stance?
- We are still hard at work seeking common ground, but I am hopeful that the lead players honestly want a responsible bipartisan deal.
- Whatever we come up with will, no doubt, strike some as less than perfect trade policy. There are some who believe labor and environmental protections should not be subject to the same dispute settlement and enforcement mechanisms as market access provisions.

- But trade is about negotiating, respecting your partner's sensitivities and priorities. If a deal is balanced, probably neither side will call it perfect.
- But it is better to accept a very good deal than have no deal at all IF and only IF that deal delivers market opening going forward and ensures U.S. trade politics is less polarized.
- Standing in place is simply not an option when it comes to the trade policy of the United States of America.
- President Bush is a man of principle but he also a man who wants results for the American people.
- Time is no longer on anyone's side. If we succeed in coming to agreement in the next several weeks, the rest of this year and next will be among the busiest and most challenging the trade community has ever faced.
- Debates on the FTAs with Colombia, Peru, Panama and Korea, TPA and -- we hope -- a Doha agreement.
- For America to win, participants – business and government -- in this debate will be asked to stretch beyond previous comfort levels. And that includes Congressional Democrats who once again share the burden and responsibility that comes with governing.

- But we should welcome the chance to forge a new bipartisan consensus on trade that will keep the United States at the forefront of shaping and harnessing the economic forces that are the hallmark of our time.
- We owe that to US workers and consumers – and people like your shareholders, your employees, their families and their communities.
- And we owe it to the hundreds of millions of people around the world who stand to benefit from the free flow of goods and services.

What you can do to make a difference

- I know many of you have worked hard to promote trade legislation in the past. Today I ask you to be ready to pour it on as you never have.
- Government officials, including the President, the Secretary of State, the Secretary of the Treasury, and many others can make the case for trade. But you have unique credibility and standing with your employees, your shareholders, your colleagues and your communities – and your elected representatives.
- Here is one opportunity coming up. May 20 begins National Trade Week. This would be great time to send an op-ed to newspapers, a note in pay envelopes, company-wide e-mail: talking about how trade benefits your employees, stakeholders and communities.

- There are great stories out there. We need to hear them. In January, the President spoke at Caterpillar out in Illinois. He pointed out that since the FTA with Chile went into effect three years ago, Chile has become Caterpillar's fifth largest export market. Similarly, since the Australia Free Trade Agreement took effect in 2005, Caterpillar's exports to Australia have grown by 26 percent.
- Or consider this. UPS says that one job is created for every 40 international packages sent.
- Trade is the goose laying the golden egg. We need to provide for that goose.
- So continue to work with us as we navigate the new challenges and potential victories of trade legislation and negotiations.

Conclusion

- Before us, we have unique opportunities in the FTAs ready for Congressional considerations and historic opportunity to generate new trade flows and spur development globally through the Doha Round. Last, but not least we have the opportunities PLUS the challenges of TPA expiration.
- Skeptics of trade do not have the facts on their side but they have the rhetorical advantage. We have to answer their fear with courage, their anxiety with optimism, their doubts with confidence.

- Jim Owens said it best: “If the business community doesn't step forward, then we are likely to not only shift into neutral, but likely go into reverse to the detriment of the global economy and human welfare.”
- I know you are eager to succeed. Roll up your sleeves. We have a lot of hard work ahead. Thank you, and keep up the good work.