A New American Trade Agenda

Prepared Remarks of
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It's a pleasure to join you again at the Economic Strategy Institute's annual conference -- a conference that is quickly becoming one of the most important economic events of the year in Washington, and certainly one of the largest.

I particularly appreciate the theme this year -- "Whither Globalism: A World in Crisis?" It is a question that has generated a tremendous amount of commentary of late. It invites an answer and I intend to provide one in my remarks tonight.

Globalization involves the increasing integration of world markets due largely to advances in technology. Rapid advances in communications, information flows, and transportation have dramatically reduced the cost of international transactions in goods, services and capital. That has, in turn, led to deeper and more intense economic interaction among firms and people located all over the world.

As Paul Krugman of the Massachusetts Institute of Technology has said, in economics, "[p]roductivity isn't everything, but in the long run, it's almost everything." Raising our standard of living depends on raising our productivity.

That is where globalization holds great promise. The beneficial impact of competition in global markets yields increasing efficiency and rising productivity. Competition in the global economy means expanding access to export markets for U.S. goods and services and the jobs -- higher paying jobs -- that exports yield. It also means a broader array of higher quality, lower priced goods for U.S. consumers. In other words, a potential boost in our standard of living.

A recent study by Sebastian Edwards at UCLA underscored the importance of an open economy to rising productivity. Professor Edwards confirmed that countries that maintain an open economy benefit from higher productivity than those who put their faith in protectionism. In practice, that means that embracing the world market encourages stronger productivity, which in turn produces stronger economic growth, more jobs, higher wages, and a rising standard of living.
The strongest evidence of that fact is our own economy. It is no coincidence that we are in the seventh year of the current economic expansion and that our productivity is rising at the same time we are reaping the benefits of free trade arrangements negotiated with Canada and Mexico and the results of the Uruguay Round. Unemployment is the lowest it has been in a generation and, after years of stagnation, real wages have been rising since 1995, even among the lowest skilled workers in the economy.

The benefits of globalization are not limited to the United States. To the extent that globalization encourages a broader dispersion of technology and capital, it encourages economic development and an entrepreneurial spirit, thereby reducing dependency on aid and providing the basis for economic growth and rising standards of living worldwide. In short, trade is not a zero-sum game.

That said, the numerous critics of globalization accuse it of everything from a surrender of American values to the impoverishment of workers worldwide. Some say that globalization necessarily implies a loss of sovereignty because free capital flows favor rapacious multinationals that are beyond the control of any single government. Others see globalization, and the resulting economic growth, as a threat to the environment, food safety, labor standards. Still others accuse globalization of providing a conduit for illegal trafficking in drugs and even sweat shop laborers. Their intent is to persuade the American public that the changes wrought by an increasingly integrated world should be feared rather than embraced, and that the costs of globalization outweigh its benefits.

With that as context, let me turn to the questions before us. If the question is, "whither globalism," my answer is that globalism is here to stay. As I noted, the increasing integration of world markets is driven largely by technology and market demands, not by government policy. Recent liberalization of restraints on trade and investment have undoubtedly encouraged the process of globalization, but the process is unfolding according to its own dynamic.

What's more, there is nothing new and nothing to fear in that process. Recent changes in transportation and communications technology have made the world a smaller place, but that process has been unfolding since Phoenician traders set sail across the Mediterranean and Marco Polo made his way to China and back. While the degree of economic interaction is more intense, it is not different in kind. It boils down to the same thing it always has -- people exercising their freedom to trade in the market for goods, services, and capital to meet their demands.

If the question is whether the world is in crisis, my answer is emphatically no! The American economy is as healthy as it has ever been. As Mortimer
Zuckerman puts it in the most recent issue of Foreign Affairs, "Everything that should be up is up -- GDP, capital spending, incomes, the stock market, employment, exports, consumer and business confidence. Everything that should be down is down -- unemployment, inflation, [and] interest rates."

It would, moreover, take an extremely short-sighted view of history to think that the latest international financial crisis is a harbinger of some fundamental change in the world economy. The problems in Asia are dramatic, but not fundamentally different than financial crises of the past. There are few things in life more certain than recurring panics and crises in world financial markets.

More importantly, globalization is not the cause of the financial problems in Asia. Markets reward sound economic policy and punish poor economic policy. Capital flows respond accordingly. Those who suggest that globalization or the free flow of capital are to blame have simply confused cause and effect.

To my mind, the real issue that the questions in the title of this conference suggest is whether there is anything about globalization that requires a significant change in our trade and economic policies? Frankly, I believe there is. But, the main thrust of those changes should not be to impede technological or economic progress by creating new barriers to trade or investment, as many critics from Pat Buchanan to Ralph Nader to Dick Gephardt suggest. That would be self-defeating.

The challenge, instead, is to adopt policies that encourage a dynamic domestic and global economy, while addressing the legitimate concerns that critics raise. It means shaping our policies in ways that permit us to reap the benefits of increasing economic integration, while ensuring it serves our broader societal goals.

That will require a significantly broader vision of what constitutes trade policy in the future. What is required is a policy that addresses both the domestic and international impact of globalization. That necessarily reaches beyond arcane questions of tariffs, quotas, margins of preference, and subsidy disciplines, but must address those standard problems of the trading system at the same time.

New American Trade Agenda

I believe it is time, as a consequence, to establish a new American trade agenda -- one that is worthy of the dynamism and spirit of the American people as we make the passage into the 21st century.

America has always been a trading state. It was born in a revolution that was
sparked by British restraints on trade, made its westward progress largely based on foreign investment, plied the oceans with its "clipper ships," and grew to unrivaled prosperity in the years since the Second World War in an international trading system that is a uniquely American creation.

We are justifiably proud of what American industry, labor, and innovation have built at home and abroad. We should also take pride in the American leadership that has built the institutions of today's trading system.

In my view, a new American trade agenda that is worthy of that legacy must contain four critical elements -- only one of which addresses what we traditionally think of as trade policy.

First and foremost, we must rebuild the domestic political consensus in support of trade and American engagement in international affairs generally. American leadership is the essential ingredient of any forward-looking initiative on the international front, and the support of the American people is essential to American leadership.

Consequently, we must reconnect our trade policy with main street America, with the farm and the factory. We must demonstrate to the American people the concrete and profound benefits of an open market and a policy of free and fair trade if we expect them to support our endeavors.

That, in my view, will require the following --

- Honesty with the American people about the benefits and costs of any new initiative on trade or investment. There is no value in overselling trade agreements as some advocates have; that simply leads to further skepticism on the part of the American people.
- We must be willing to squarely address any legitimate concerns critics have raised regarding the impact of increased trade on labor standards, wages, the environment, food safety, and the trade deficit. Unless and until we do, we will not make progress on trade.
- We must establish concrete trade negotiating objectives that address specific barriers to U.S. commerce, together with a specific timetable for achieving progress on those points in order to demonstrate to the American people that our trade policy serves their interests.

We must also be prepared to clean up past trade agreements -- to fix what is broken, plug the holes, and aggressively enforce our obligations in order to ensure that the American people get
the benefit of their bargain.

"Second, a new American trade agenda must ensure that we get the economic fundamentals right at home. As I noted earlier, the market imposes a harsh discipline on unsound economic policy. Increasing globalization and the free movement of capital simply accentuate that effect.

"The Asian crisis is our warning. Knowing that, we must ensure that our domestic economic policies foster an economic environment where innovative firms can take root, prosper, and become world-class competitors. Three items come immediately to mind as candidates for a top-to-bottom review -- our tax code, our educational system, and our trade adjustment programs.

We must ensure that the tax code fosters the competitiveness of American-based firms engaged in global competition by reducing the burden and cost it imposes on all taxpayers, while encouraging those economic activities that are essential to a growing, vibrant economy -- savings, capital formation, productive investment and honest labor. Tax simplification will be a high priority of mine.
We must foster an educational system that increases the economic prospects for future generations -- one that builds the human capital that it will take to compete in a global economy. Toward that end, we should encourage a healthy partnership between our schools and private enterprise, as we have in the past. This is reemerging very successfully in places like Louisville where the community worked with UPS to ensure that it had the workforce to meet its needs in a truly global business. But we must go further.
We must also revamp the disparate programs that we now employ to address the costs of increasing trade competition to foster flexibility in the labor markets. We must ensure that the displaced worker does not lose his or her grip on the economic ladder. I have long held that those of us who benefit from trade should offer a helping hand to those who face the challenge of economic adjustment. We need to rethink our current programs to ensure that they meet that test.

Third, a new American trade agenda will require a new approach to international financial markets and other matters of foreign economic policy.

On the financial side, one thing is certain. In a more open, global economy, trade and finance are inextricably linked. What the Asian crisis reminds us is that problems in the financial arena can have profound influences on the productive side of our economy.
To avoid the dramatic adjustments that the Asian crisis has imposed, we must make progress on the following fronts --

We must ensure greater economic policy coordination to promote exchange rate stability, which reduces the uncertainty and cost of international sales. The advent of the Euro may make that easier and there is an excellent opportunity to explore that possibility at the upcoming G-8 summit in Birmingham, England.

We must require trade reform as a part of all IMF and World Bank adjustment programs. A recent IMF study indicates that at this time only a third of all IMF adjustment programs require trade reform. Given what we know about the impact of an open economy on productivity and economic development, trade reform must be on the top of the list. Unfortunately, that is not the case now and our Treasury officials will have to ensure that it is if they want to see continued congressional support for the IMF.

We must demand greater transparency of the IMF and member governments to facilitate earlier adjustment to changing economic conditions. At a minimum, that requires disclosure of accurate information on current account positions (the balance of trade in goods and services plus net rents, interest, profits and dividends, and current transfer payments), foreign exchange reserves and short-term indebtedness to foreign creditors. We must also press bilaterally and through multilateral institutions like the IMF, the World Bank, and the Bank for International Settlements, for countries to impose stronger accounting standards, financial reporting obligations akin to our own securities laws, a workable bankruptcy law, and the rest of the legal foundation needed for a functioning capital market. Frankly, to be effective, the private sector needs to demand those fundamental changes in local law as well. Such standards should be conditions of access to investment capital just as they are here in the United States.

Those sorts of changes in the financial sector must be mirrored by new approaches on other issues as well, including labor and the environment. For those of us who believe in the benefits of trade and want to see material progress on the trade front, we must provide the impetus to address labor and environmental concerns in their appropriate fora. Otherwise, those issues could well bar progress on any agenda in the trade arena, as the failure of fast track this past fall illustrates.
The final component of a new American trade agenda involves what we have conventionally thought of as the world of trade policy. It involves our approach to the World Trade Organization, regional or sectoral initiatives like the recently launched Free Trade Agreement of the Americas talks, and bilateral trade negotiations. It also involves the domestic legal framework we use to regulate trade.

In terms of future trade negotiations, I will reiterate my earlier comments -- there is a real need to reconnect our trade policy to the prospects of American business, American farms, and the American worker. We do not live in a world of free trade. We are, instead, engaged in the messy process of negotiating liberalized trade through hard bargaining over reciprocal trade concessions.

That process needs a boost, a different dynamic than the one we are currently pursuing. My preference is to build on the upcoming negotiations on agriculture and services in the WTO as the center piece of a new multilateral initiative on trade, whether we call it a new "round" or not.

To my mind, the driving force behind that initiative should be to complete the job the GATT started 50 years ago. What better way to celebrate the 50th anniversary of the GATT than to kick off negotiations designed to complete the work the GATT started by calling for the elimination of tariffs and other import restraints on goods within ten years. Let's put the completion of the WTO agreements on services, agriculture, intellectual property and investment on the same schedule.

Furthermore, instead of the traditional negotiating dynamic, we should issue a blunt challenge. In order to make progress in previous rounds, the United States has often been willing to make concessions at the negotiating table in order to see the process of trade liberalization move forward. The time has come to turn the tables and ask our trading partners to reciprocate.

I believe the time has come to ask our trading partners to lower their trade barriers, agricultural subsidies, and other trade distorting practices to our level -- or even below -- as the next step in the process of liberalizing trade. As a practical matter, that means that European tariffs on automobiles should drop immediately from 10 percent to the U.S. rate of 2.5 percent or below. India's 65 percent tariffs on textile products should drop to or below U.S. levels by the time the Multifiber Arrangement is phased out in 2005.

My point is that we must demand real reciprocity in any new initiative on trade, whether negotiated multilaterally, regionally, bilaterally, or we will not enjoy the support of the American people in that effort.
The counterpart to rethinking our approach within the WTO is a reassessment of our own domestic framework for trade as well. If there are mechanisms by which Congress can help the Executive establish the specific targets of American action, such as the old Super 301 provisions, we should consider them. If there are flaws in our trade laws that leave us open to foreign unfair trade practices, we should correct them. I intend to ensure that we undertake that review promptly in order to assure the American people that we are providing a level playing field.

Implementing the Agenda

Having set out that broad agenda, let me turn to its implementation. It should be clear that it will require a sustained partnership between the President and Congress to implement that agenda successfully.

Leadership from the Executive is essential to that effort. In that regard, I believe we should give credit where credit is due. President Clinton showed real leadership in his defense of an open trading system in the passage of NAFTA and the completion of the Uruguay Round. Those were, in fact, the high points of President Clinton's first administration. The President will have to bring his persuasive skills to bear on behalf of engagement if we are to make progress toward a new American trade agenda.

Congress must join the President in that effort. Congress is the natural forum for a national dialog on trade and the debate we must have on the contours of a new American trade agenda. That is, after all, the job that the American people elected us to do. The debate within Congress must help the American public understand why trade and a more global economy is in America's interest and ensure that we secure its benefits.

Indeed, I believe that we have already begun that dialog. The fast track vote this past fall illustrates that point. The debate in both Houses reflected the concerns that many Americans have over the future course of our trade policy -- concerns that they expect to see addressed as part of any future initiative on trade.

Having said that, I would be remiss if I did not acknowledge that the proper place for that dialog to begin is in Congress -- in the Senate Finance Committee, which I chair, as well as in the House Ways and Means Committee. I take that responsibility seriously, which is why I am willing to make the following commitment.

I intend to proceed with a comprehensive review of our trade and investment policies and their impact on our trade competitiveness. That review will involve
the use of committee hearings, the resources of the International Trade Commission, and the committee staff to address each of the issues I have raised this evening.

The goal of that review will be to develop a new consensus for trade legislation that will form a basic contract between Congress and the American people on the terms of our trade policy. In my view, that is the only way to ensure that we can make progress on trade with the full support of the American people. I am committed to that task.

SEN. WILLIAM V. ROTH is currently serving his fifth term as a senator from Delaware, where he sits on the Committee on Finance. Prior to embarking on his career in the Senate, he served in the U.S. House of Representatives from 1967 to 1971, and was Delaware State Republican Chairman from 1961 to 1964. Senator Roth is President of the North Atlantic Assembly, a member of the Steering Committee of Asia-Pacific Parliamentarians Forum, and a member on international boards of the Center for Strategic and International Studies and Pan-Pacific Association. Senator Roth served in the U.S. Army from 1943 to 1946, where he rose from the rank of private to captain, receiving the Bronze Star in the process. He has a B.A. from the University of Oregon, an M.B.A. from Harvard Business School and a LL.B. from Harvard School of Law.