

2014

Remarks by Ambassador Michael Froman at the Council on Foreign Relations: The Strategic Logic of Trade

Follow this and additional works at: <https://scholar.smu.edu/lbra>

Recommended Citation

Remarks by Ambassador Michael Froman at the Council on Foreign Relations: The Strategic Logic of Trade, 20 *LAW & BUS. REV. AM.* 373 (2014)
<https://scholar.smu.edu/lbra/vol20/iss3/2>

This Perspective is brought to you for free and open access by the Law Journals at SMU Scholar. It has been accepted for inclusion in Law and Business Review of the Americas by an authorized administrator of SMU Scholar. For more information, please visit <http://digitalrepository.smu.edu>.

REMARKS BY
AMBASSADOR MICHAEL FROMAN AT THE
COUNCIL ON FOREIGN RELATIONS
THE STRATEGIC LOGIC OF TRADE

New York, N.Y.
June 16, 2014
As Delivered

LAST week marked the 80th anniversary of the Reciprocal Trade Agreement Act of 1934. This legislation, passed by the New Deal Congress and signed into law by Franklin Roosevelt, was a revolution in trade policy and the precursor to what we today call Trade Promotion Authority. It was also an important component in the rise of American leadership in world affairs.

The reciprocal trade program was the brainchild of FDR's Secretary of State, Cordell Hull. Having watched high tariffs strangle U.S. commerce during the early 1930's, Hull knew that economic recovery at home depended on expanding trade abroad. As a former Senator, Hull also understood that the United States should negotiate trade agreements with a single voice.

With Congress's approval, the Roosevelt administration concluded 19 trade agreements during the first five years of the program. And in doing so, they established the fundamental strategic logic of trade. By expanding trade, the United States built its own economy, expanded prosperity, and created the preconditions for maintaining a strong military and projecting power and influence abroad.

Trade liberalization stalled with the outbreak of World War II, but after war gave way to peace, Presidents Truman and Eisenhower wasted no time taking up where FDR left off. By 1962, the reciprocal trade program had been renewed 11 times, compelling President Kennedy to call it "an expression of America's free world leadership—a symbol of America's aim to encourage free nations to grow together."

FDR's reciprocal trade program planted the seeds for today's global trading system. As the principal architect and guardian of that system, America has been among its major beneficiaries, even as it provided asymmetric market access to help its partners reconstruct and develop their economies. We made significant concessions in the short run because we had the confidence that in the medium and long run, we would

be significant beneficiaries from the system. This system has brought jobs to our shores, partners to our defense, and peace and prosperity to those around the world who have embraced openness, fairness, and freedom.

In recent years, though, tectonic shifts such as globalization, technological change and the rise of emerging economies have reshaped the international landscape, raising questions about whether the inherited rules of the road and institutional frameworks are in need of updating and whether others were prepared to live by the same calculations we were as stewards of the international system. As President Obama said last month at West Point, "Just as the world has changed, this architecture must change as well."

We're now engaged in such a major architectural effort: revitalizing the rules, relationships, and institutions that have underpinned the global trading system.

We're developing plurilateral agreements to advance the opening of markets and the adoption of high standards, we're reforming key preference programs and we're reinvigorating the multilateral system to take into account the changing landscape of the global economy. We might not occupy the same position we held at the end of World War II, but as a country with the largest market in the world and a rich network of alliances and partnerships, we continue to drive reform and innovation in international fora.

The strategic logic of this agenda is as compelling as the economic one, but what does that mean in practice?

American leadership, exercised through trade, can bolster the foundation of our power—the strength of the U.S. economy, establish rules of the road that reflect both our interests and our values. It can support reforms that promote openness and pluralism, it can strengthen our alliances and partnerships, and spur global development.

I'd like to touch briefly upon how U.S. trade policy advances each of these five strategic objectives.

For much of the 20th century, the strategic importance of trade—and international economic policy, more generally—was seen through the lens of military strength. To the degree that economic policy was relevant to foreign policy and national security policy, it was treated as an enabler. A strong economy would allow the United States to support a strong military, and that strong military, in turn, would lay the foundation for the projection of American power and influence.

Today, trade still bolsters our most fundamental source of power: the U.S. economy. But what has changed is that economic clout in many respects is now the principal yardstick by which power itself is measure. In a world where market forces displace as much weight as military might, trade is a force multiplier, an investment in American power, both hard and soft. America is the birthplace of new ideas, tomorrow's inventions, and the driver of innovation worldwide. It is the center of research and development and the digital economy. Economic power is not sim-

ply measured by GDP, though trade's contribution to economic growth is significant. Trade also enhances the competitiveness of the United States and its capacity to take what it creates here and make it the driver of economic activity worldwide.

This is why President Obama has made trade a central part of his economic strategy for creating jobs, promoting growth and strengthening the middle class. A few statistics: Under President Obama's leadership, U.S. exports have hit record highs, \$2.3 trillion last year. The increase in exports is responsible for a full third of America's total economic growth over the last 5 years. Each additional \$1 billion in exports supports somewhere between 5400-5900 U.S. jobs. Over the past 4 years, expanded exports have supported 1.6 million new jobs—jobs that pay 13-18 percent more on average than non-export related jobs.

Beyond its impact on jobs, growth and the strength of the U.S. economy, trade negotiations are strategic because they are the mechanism by which we define the rules of the road, the standards countries should adhere to, the norms which create a sense of fairness among economies, and the mechanisms by which disagreements—as they inevitably arise—can be peacefully resolved. This is particularly important at a time of rapid change.

We welcome the rise of emerging markets, but we have concerns that they have yet to be willing to take on responsibilities commensurate with their increasing role in the global economy. And that has posed a challenge to the completion of the multilateral Doha Development Round as originally envisaged. It also underscores the value of pressing forward plurilateral initiatives and working with similarly focused countries to set high standards in terms of opening markets and addressing new challenges facing global trade. By pressing forward, we can incentivize others to adopt new, high-standard rules and give momentum to multilateral talks.

That is the driving force behind the Trans-Pacific Partnership or TPP, a comprehensive, high-standard, ambitious negotiation between the United States and 11 other Asia-Pacific countries. TPP is as important strategically as it is economically. Economically, TPP would bind together a group that represents 40 percent of global GDP and about a third of world trade. Strategically, TPP is the avenue through which the United States, working with nearly a dozen other countries (and another half dozen waiting in the wings), is playing a leading role in writing the rules of the road for a critical region in flux.

With TPP, we can level the playing field for American workers and American firms. By building strong, binding labor and environmental standards, we can promote competition that is fair and sustainable. By creating the first disciplines on state-owned enterprises in any trade agreement, we can make sure that when SOEs compete against private firms, they do so on a commercial basis, not on the basis of unfair subsidies that they might receive by virtue of their government ownership.

By bringing traditional trade principals into the digital era, we can make sure the global trading system reflects new developments in technology, to bolster a free and open Internet, the free flow of data, and the capacity of small and medium-sized businesses to integrate themselves efficiently into the global economy.

These efforts all speak to updating the rules of the road for the 21st century global trading system—and doing so in a manner that is not just consistent with our interests, but also with our values.

Doing so is central to strengthening the U.S. economy and, hence our security.

But very importantly, doing so also underlies a broader reform agenda.

Labor and environmental standards promote sustainable and inclusive growth. SOE disciplines support competitive market reforms. A free and open Internet supports the free flow of ideas. In these ways, our trade agenda promotes a liberal order among countries.

U.S. trade policy is also strategic because it strengthens our partnerships abroad. Since their invention, U.S. free trade agreements have helped solidify our relationships with key partners and allies. Our first free trade agreement, with Israel in 1985, was a clear signal to the world that the bond between the United States and Israel runs deeper than security matters. But this is about more than just sending a signal, it's about creating patterns of engagement, habits of cooperation that spill over into broader relationships. Given recent developments in Asia and Europe, the strategic implications of TPP and T-TIP have never been greater.

Today, the centrality of TPP to our Asia rebalancing strategy is key. The United States is a Pacific power and TPP is a concrete manifestation of our commitment to the region that further institutionalizes our engagement. Similarly, the rationale for forging deeper ties with Europe through the Transatlantic Trade and Investment Partnership, or T-TIP, could not be stronger. Our economic bonds with Europe already run deep: \$1 trillion of trade each year, \$4 trillion of investment, 13 million workers on both sides of the Atlantic who owe their jobs to the transatlantic trade and investment relationship. T-TIP presents an enormous economic opportunity to increase U.S. exports to our largest market and promote international competitiveness, particularly if we can bridge the divergences in our regulatory and standards regimes without lowering the overall level of health and safety and environmental protection.

But beyond the economic rationale, T-TIP presents a historic opportunity to put our economic partnership on par with our security and relationship. In addition, many in Europe have focused on T-TIP being a mechanism for supporting their efforts to reform their energy policies and diversify their sources of energy.

Finally, U.S. trade policy is strategic because it spurs global development. By fueling economic growth, trade offers opportunities to those who might not otherwise have hope. By promoting good governance,

trade is a stabilizing force that prevents state failure. Due in no small part to expanding global trade, hundreds of millions, if not a billion people, have been lifted out of poverty over the last several decades and that, in turn, creates opportunities to address regional and transnational issues of concern. The challenges facing some of the poorest developing countries are significant, but it is substantially easier to address them in the context of economic growth and integration that trade can help drive.

And that's why, as we prepare for the first US-Africa Leaders Summit, which President Obama has called for this August, we look forward to proposing mechanisms to further strengthen our economic ties with this important region, including through the seamless renewal of AGOA, and to do so in a manner that reflects the changes in Africa and its relations with other trading partners.

By this point, the strategic logic of trade should be obvious. And if it isn't, just imagine the 20th century without trade as a tool for achieving strategic objectives:

Imagine America's recovery from the Great Depression without Congress giving FDR the authority to slash the Smoot-Hawley Tariff and expand trade.

Imagine the Marshall Plan, which pulled Western Europe out of the ashes after World War II, without the measures that catalyzed European integration.

Imagine nearly one billion people being lifted out of poverty between 1990 and 2010 without global trade expanding by leaps and bounds.

The strategic logic of trade runs through almost every important chapter of U.S. foreign policy.

Yet today, there is skepticism about the promise of trade. The forces of globalization and technological development have created great insecurity about the economic futures of many Americans. These concerns are very real. But a problem arises when those broader concerns are conflated with trade agreements.

The reality is this: Trade agreements are how we deal with globalization, by leveling the playing field; for American workers and American firms. It's how we deal with technology, by taking advantage of its development to promote openness, innovation and competitiveness.

Trade, done right, is part of the solution, not the problem.

The choice today is whether we should surrender the tools of American economic leadership and watch our future be shaped by globalization rather than proactively shaping it to our benefit.

The costs of that approach are substantial, economically and strategically. And those costs will be further magnified in the future by the fact that if we do not act, others will. As FDR observed when requesting trade negotiating authority from Congress over 80 years ago, "The world does not stand still."

If we don't lead, someone else will fill the vacuum or, worse yet, the vacuum will remain unfilled. Influence follows trade. If the U.S. leads on

trade, its influence will expand. And if we don't, others will fill the gap. And I can assure you, their vision will be at variance with American values and American interest.

Yet at a time of increased tension in Asia and on the periphery of Europe, at a time when the strategic logic of TPP and T-TIP has never been more clear, trade policy has become more difficult than in the past.

In TPP, for example, the group dynamics of negotiating at 12 countries is different than either a bilateral or multilateral deal. And because our market is largely open to most of our trading partners, this isn't simply a matter of trading market access for stronger rules. Instead, we must find common ground across issues.

There is another reason that this is harder than ever before. The broad, bipartisan consensus that has historically supported trade has frayed. We need to rebuild that consensus by ensuring that trade is done right, that it creates opportunities for Americans workers and families—by raising labor and environmental standards around the world; by ensuring that through intellectual property rights rules, we both incentivize innovation and promote access to affordable medicines; by making sure that we level the playing field for businesses of all sizes, most importantly small and medium-sized businesses; and by preserving an open Internet that promotes the free flow of ideas and the development of the digital economy.

We face an enormous choice in this country: whether to lead or be left on sidelines. Economically and strategically, there's just one right answer. The Council certainly appreciates that, and I look forward to hearing your perspective about it. Thank you.

Articles

