

"The United States, Europe and the World Trading System"

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"The Kangaroo Group"

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As prepared for delivery:

I would like to start by thanking the "Kangaroo Group" for inviting me to speak. Since 1979 you have been a welcome voice for free trade and free movement in Europe. Your choice of the kangaroo as a mascot is fitting, given its ability to make great forward progress in leaps and bounds.

This is my first trip to Europe as the United States Trade Representative, so it is a pleasure to start in Strasbourg, a city where Goethe studied, Pasteur taught, and Gutenberg lived. The faces of this region occupy a special place in the memories of those Americans who first entered the United States through New York Harbor. They would see the Statue of Liberty, a gift from France, designed by Auguste Bartholdi, a son of France. The face of Liberty is Bartholdi's mother, a woman of Alsace.

I am pleased that my first speech in Europe in this post is to members of the European Parliament. Building on the Amsterdam Treaty, this Parliament is determining a new and important role in the European system.

Over the past few months, various European leaders have been proffering visions for the future of the European Union. It is an exciting time. Debates are stirring; ideas are clashing.

Of course, these constitutional questions are for Europeans to resolve. As you do, I hope that the democratically elected leaders of this European institution keep in mind that the core values that infuse the New Europe are not limited by geographical propinquity. Like the Statue of Liberty - made in Europe, erected in America, welcoming people from around the world - the Euro-Atlantic community stands for universal principles.

We must work together to advance these shared values and common interests. We must cooperate in promoting democracy, freedom, open markets, and societal and individual opportunity. As this Parliament did two years ago, I hope you will continue to promote accountable and transparent governance. I hope you will also be an ally in launching a new round of global trade negotiations later this year to promote growth and openness. And of course you will understand if I at least hope the Parliament will press for reforms in the Common Agricultural Policy, so the European Union can save money, enlarge to include Central and Eastern European nations, restore public confidence in agriculture, and open European ports to delightful food from around the world!

There are other notable trends on the European scene today. There is a movement toward private markets and business competition and away from state planning and government cartels. There is a growing recognition that economies energized through deregulation, limited taxation, open trade, and flexible labor policies will produce more prosperity, creativity, and opportunity than a statist, top-down approach.

Europe's business regeneration has resulted in a more productive relationship with the United States. The total amount of two-way investment in the EU and the United States amounts to over \$1.1 trillion, with each partner employing about 3 million people in the other. The amount of trade in goods and services between the United States and the European Union nearly doubled during the 1990s. In 1999, European companies acquired and established businesses in the United States valued at \$205 billion, up from \$31.9 billion five years earlier.

The Euro-Atlantic experience - including lessons learned the hard way - has helped transform perspectives around the globe. A higher percentage of the world's people are living in democracies than ever before. There is an increasing recognition that with economic and political liberty the genius of the individual can invigorate societies and create unimagined opportunities. This is a world in which capital moves around the globe at the click of a mouse; communications across borders, and continents, cost a fraction of the price of even 20 years ago; previously unmanageable reams of data can be transformed into information to guide customized services; new technologies offer revolutionary possibilities - and companies must look around the globe for new customers, suppliers, and partners. Yet as Winston Churchill warned, "The further backward you look, the further forward you can see."

A century ago - a time, I might add, when Churchill was alienating his colleagues in Parliament with his free trade advocacy - there was a similar sense of optimism about the forces of progress sweeping the globe. Like today, it was an era of inventions that seemed to draw nations, and people, closer together. There were new forms of transportation, such as cars and planes; new forms of communication, such as the telephone and the wireless; and unifying social movements, ranging from the revival of the Olympics in 1896 to the admission of women to German universities in 1909. Then there was my favorite invention of the era: safety razors with removable blades.

Two best selling books in Europe captured the confidence of the times. The first, published in 1899, was written by the German biologist Ernst Haeckel. Entitled *The Riddle of the Universe*, Haeckel argued that science would soon solve all the world's problems - including war. A decade later, Norman Angell wrote the worldwide best seller, *The Great Illusion*. Angell claimed war was useless and unlikely in the modern economic era, given the complex financial and commercial interdependence of the world's leading powers.

Tragically, the First World War, the Depression, and then the Second World War, provided cruel lessons for those who believed that economic integration and technological innovation alone would lead

to perpetual peace and prosperity.

The hopeful prospects of 100 years ago were overwhelmed by the dangerous ideas of the early 20th century - imperialism, fascism, authoritarianism, communism, corporatism, isolationism, and protectionism. We learned anew that ideas can also lead to cruelties and tragedies: wars, depression, mass starvation, and economic disasters. Thus the growth in trade over the past 50 years has served mostly to reverse the declines experienced in the first half of the 20th century. Indeed, Federal Reserve Chairman Alan Greenspan has pointed out that the degree of global integration today is not much greater than it was a century ago. Net capital flows across the major industrial economies, as a percentage of GDP, were still greater at the start of the century than they were at the end.

So today, at the dawn of a new century, we again have a choice of ideas, for the United States, the European Union, and the world. Which ideas will triumph - those of fear or those of optimism and freedom? We can let our success slip away amidst disputes, narrow interests, or even insecurities. Or we can build on the momentum of the past 50 years, championing the values of openness and freedom, and honoring the vital linkages among economic liberty, free trade, open societies, successful democracies, individual opportunity, and peaceful security.

Euro-Atlantic cooperation will not, of course, eschew healthy debate. We should stand up to new challenges and be honest about differences in perspective and reasoning. We should compare facts. We should discuss outlooks. We should present principles. But most of all, we should not shrink from a community of discourse, because our common values both necessitate the exchange and offer the foundation that will enable us to sustain our larger shared purposes even when we disagree.

Globalization, Trade, and Values

Discourse, debate, and cooperation between the United States and the European Union will assume even greater importance in the months and years ahead, as we look to advance free trade around the world and launch a new round of global trade negotiations. There can be high costs when we talk past each other, and not to each other, as we learned from Seattle. If the United States and the European Union are not committed to working together to launch a new global trade round this November, it will not happen.

While differences are inevitable, the European Union and the United States need to keep our eyes on long-term goals. If we reach into our past - rich with recollections of how protectionism breeds distrust and wars, and how openness and cooperation among democracies breed peace and prosperity - we can reestablish our common footing. We can continue to demonstrate to the world that open societies and open trade are the only pathways to lasting prosperity. We can help those nations less fortunate than ours take the difficult steps toward democracy, economic liberalization, and openness. And we can, together, build a bridge to a new global trade round based on our common ideals and aspirations.

To meet these goals, we will need to build more public support for opening markets, at home and abroad. We need to be more forthright in spelling out the benefits of trade. And not just the economic benefits, but also explaining how trade is intertwined with security, political cooperation, and the spread of democratic values.

Some say that we must be cautious about pressing for free trade because of slower economic growth. I say that the most important time to show support for free trade is during periods of economic uncertainty. Protectionism only depresses investor confidence and prolongs sluggishness.

Expanded trade - imports as well as exports - improves our well being. It leads to better jobs, with bigger paychecks, in more competitive businesses - as well as to more choices of goods and inputs, with lower prices, for hard-working families and hard-driving entrepreneurs. In the United States, exports accounted for over one-quarter of our economic growth over the last decade and support an estimated 12 million jobs. For the European Union as a whole, exports accounted for an estimated 45 percent of economic growth during the 1990s.

NAFTA and the completion of the Uruguay Round contributed to the longest period of economic growth in U.S. history, with levels of full employment and without inflationary pressures, beyond the forecasts of any economist. The two agreements have resulted in higher incomes and lower prices for goods, with benefits amounting to \$1300 to \$2000 a year for the average American family of four. When trade is restricted, hard-working families are forced to devote a larger portion of their paychecks to more expensive food, clothing, and appliances. Trade protection is a hidden tax on every consumer.

Trade is also essential for economic growth in developing nations. A recent World Bank study analyzed the economic performance of globalizing and non-globalizing developing countries. The study found that in the 1990s, the income per person for globalizing developing countries grew more than 5 percent per year. For non-globalizing countries, annual incomes declined by more than 1 percent per year. The study also found that as trade grew and economies expanded, people with lower incomes realized a proportionate share of the benefits. Absolute poverty in the globalizing developing countries has dropped sharply in the last 20 years.

Free trade is also about freedom. As President Bush has said, "Economic freedom creates habits of liberty. And habits of liberty create expectations of democracy."

NAFTA, for example, was a key to the political transformation of a modernizing Mexico. It is not a coincidence that after NAFTA's implementation, Mexico elected its first president from the opposition, Vicente Fox, since that nation's revolution. And as the political system in Mexico has been liberalized, NGOs and a truly independent press have sprouted. At the recent Summit of the Americas, the leaders agreed that any unconstitutional alteration or interruption of the democratic order in a state of the hemisphere would disqualify that government from further participation in the Summit of the Americas process.

Open trade means more competition, less government regulation, and less red tape. That translates into fewer opportunities for corruption. Corruption is a rot that chokes off economies and undermines political legitimacy.

We need to pursue free trade in a way that is consistent with our values and draws on our compassion - whether as conservatives, liberals, or European socialists. For example, the Bush Administration is committed to a flexible policy on intellectual property as it relates to medicines to treat HIV/AIDS. This flexibility, afforded by the major international trade agreement on intellectual property, enables countries and companies to help deal with this tragic pandemic by encouraging low-cost access to critical medicines. Yet the preservation of intellectual property rights is also necessary to spur the research on and innovation of yet-undiscovered medicines and treatment that might prevent or cure other deadly diseases.

We should explain how trade, economic growth, and open societies are integrated with and mutually supportive of our efforts to promote health, improved environmental conditions, and labor standards. We should be willing to consider a range of ideas for improving the labor and environmental conditions of our trading partners, as long as actions are not protectionist and remain attentive to sensitivities about sovereignty. We might use incentives, not just disincentives, to encourage better environmental protection and respect for core labor standards. Incentives can be related to aid programs, financing through multilateral development banks, and preferential trade. We can target subsidies that harm the environment, for example, for fishing. We can also strengthen the role of complementary specialized institutions, such as the International Labor Organization. In an effort to create a more transparent and open process to help address the interconnection between trade and the environment, the United States is conducting environmental reviews of draft trade agreements. For example, we are now undertaking environmental reviews of the Free Trade Area of the Americas and, with typical American optimism, the agricultural and services sectors of the new global trade round in the WTO that we hope to launch this year!

For all the benefits of trade, we must also recognize the anxieties it engenders. Trade spurs change. And even when change unleashes benefits, it frightens people.

Minister-President Kurt Biedenkopf of Saxony has pointed out that the objective of government should be to achieve certain social goals, not just to preserve particular social systems. I have a similar view. Rather than trying to turn back the clock with outmoded protectionist strategies, which hurt precisely the people who need the help, we need to assist in the difficult adjustment to allow our citizens to benefit from new realities. We need better schools, which promote lifetime learning, because our citizens must have the ability to adapt to the demands of rapidly and consistently changing economies. Taxes need to be reduced, so hard-working taxpayers can keep more of their earnings and save for life's uncertainties. And we need to reform our pension programs, because it is the elderly who are least able to adapt to change.

U.S. Strategy

President Bush recently stated that America's limited ability to advance the trade agenda over the past few years "has had real costs for the American people." Make no mistake: We are back at the free trade table.

The Bush administration's trade agenda will encourage the development of integrated networks of dynamic and entrepreneurial systems energized by private initiative and capital. We recognize the importance of innovation, experimentation, and competition. We believe that the most appropriate role for government is to provide a hospitable market environment through the promotion of property rights, flexible labor markets, low taxation, and sound money.

As Harvard Business School professor Michael Porter has pointed out, Scandinavia developed a thriving wireless telephone industry because it created the Nordic Mobile Telephone standard in 1981, not because of government planning, subsidies, or protection. Similarly, both Japan's automobile industry, and India's software industry, have succeeded precisely because they have been exempted from most designs by bureaucrats to enhance competitiveness. Successful companies have listened to customers, not to government planners.

To promote an effective international economic system, we should also strive for creativity in governance. In the modern, wired world, government will become increasingly ineffective if it fails to keep up with societal changes. Rather than struggle to preserve hierarchical structures that are predicated on old command and control systems, we should ease the way for distributed networks based on empowerment, flexibility, and openness.

This logic of governance should extend to the rules of our trading system. To enable businesses, economies, and societies to change to meet the challenges of new circumstances, our trading rules should be flexible enough to respect different national approaches while consistently challenging actions that discriminate against others and thwart openness with protectionist barriers. The rules of our trading system should foster transparency, competition, anti-discrimination, and respect for local governance - subsidiarity, if you will. They should not create a new, global regulatory model. A "one-size-fits-all" regulatory structure would choke off the ingenuity, initiative, and innovation that will enable our citizens to advance their lives, liberties, and livelihoods.

Our trade policies need to anticipate how regional and national systems will interact with each other. With commerce increasingly being conducted across, not within, national borders, issues that were traditionally the subject of national regulation now intersect with decisions made in other countries. For example, global e-commerce strategies depend on local rules about information privacy. The international agricultural trade depends on local standards and inspections pertaining to human health and animal and plant disease. Equipment sold around the world must meet different rules for safety and performance.

The trading system should respect local differences that reflect the decisions of sovereign governments. In some areas, we may be able to agree to harmonize rules. But it is more likely that we will need to work to achieve a compatibility of distinctive regulatory systems. For example, we might agree on mutual recognition arrangements for different standards. We can agree on due process principles for the establishment of rules - including public notice, an ability to comment, transparency, and making decisions in a non-discriminatory fashion. We should seek to base scientific standards on methodology and research that stands up to independent scrutiny. In dealing with change, we need to recall the traditions of Europe's Enlightenment, with its respect for reason, and not those of Europe's Inquisition, with its retreat to fear.

We should also look for ways to enhance non-governmental cooperative ventures to promote more appreciation of alternative views, and if possible, accommodation - such as the Trans-Atlantic Business Dialogue and the Trans-Atlantic Consumers Dialogue. We need a system that recognizes that government does not need to provide a remedy for every private sector problem.

Let me highlight five particular elements of the U.S. trade agenda:

First, President Bush will advance free trade by pursuing global, regional, and bilateral trade agreements. We will help launch a new round of global trade negotiations in the World Trade Organization later this year. At the same time, we will pursue regional agreements such as the Free Trade Area of the Americas and bilateral agreements with countries such as Chile and Singapore. These initiatives are complementary. By moving on multiple fronts, we can create a competition in liberalization that will promote open markets around the world. We can also experiment, learn from the experience, and forge models of success that we can apply elsewhere. Our most important aim in these negotiations is to cut taxes on trade and reduce other barriers to competition - whether for services, industrial goods, or agriculture.

Second, we will seek to extend the benefits of trade liberalization to the developing world, and thereby integrate these countries more effectively into the global economic system. Yet if developing nations are to realize free trade's benefits, we need to support them to expand their capacity to take part in trade negotiations and to assist in the implementation of complex trade agreements.

Therefore, I am pleased to announce that the United States will contribute \$1 million to the WTO's Global Trust Fund for Technical Assistance. This money will provide trade officials from developing nations with new technology as well as specialized seminars and workshops offered by WTO officials. By helping developing nations advance through trade, we hope they will work with us to promote trade.

Our goal should be to support the developing world's transition from debt forgiveness and aid to growth and trade. Special preferential trade liberalization measures, such as America's African Growth and Opportunity Act, Andean Trade Preference Act, and Caribbean Basin Trade Partnership Act, or the EU's "Everything but Arms" Initiative, help lay the foundation for a future of sustainable prosperity. If we shut their products out of our markets, we are shutting the doors on their future.

Third, if we are going to maintain public support in our own countries for open trade, we will need to provide assistance to those who will find it difficult to adjust to the changes unleashed by technology, trade, and other forces. Although capital and information moves markets in moments, some industries and communities cannot adjust so rapidly. Understandably, frightened people will call for protections. But a failure to adapt and improve will not restore companies to profitability or revitalize communities. Instead, we need to consider the creative and targeted use of safeguards if businesses and workers restructure seriously so as to be able to compete effectively. For workers who will lose their jobs, we need improved assistance, training, and placement. Experience has shown that early adjustment efforts, involving private sector networks, help people get back on their feet most quickly and effectively. We need better transitions, not protectionism.

Fourth, we need to align the global trading system with our values. We can encourage open and efficient markets while respecting national sovereignty. We can encourage respect for core labor standards, environmental protection, and good health without slipping into fear-based campaigns and protectionism. And we must always seek to strengthen freedom, democracy, and the rule of law.

Fifth, transparency should become a hallmark of all future trade negotiations and trade agreements. It will build public awareness, underscoring that trade is not the exclusive province of babbling bureaucrats and agitated activists. It will counter corruption and reveal the protection of special interests. The United States was part of a recent innovative step taken by the 34 nations participating in the Free Trade Area of the Americas: The Western Hemispheric democracies agreed to make public the preliminary negotiating text of our agreement - to open the process and contribute to a more informed debate on trade. The WTO should follow suit and make its adjudicative proceedings public, reveal panel decisions promptly, and encourage more exchange with outside groups and other international organizations.

Conclusion

It is a privilege to be at the center of the trade debate at such an historic time. Open trade reflects the spirit of the new century.

At the beginning of the 20th century, revolutionary changes in information, communications, technology, commerce, and finance were shaping the environment for global politics and security. And so it is at the beginning of the 21st century.

The United States and the European Union should leverage this dynamism to open minds and to open markets. Our policies must promote these global trends. We must take practical steps to move the world toward greater freedom and promotion of human rights by linking ourselves to the agents of global change: the new networks of free trade, information, investment, and ideas.

We will have occasional disputes, but the root of our relationship remains strong and healthy - the deep, historic root that honors an individual's right to economic, political and human freedom. And if we tend

to it properly, that root will spawn a century of prosperity and freedom unequaled in human history.

Earlier in my speech I quoted a European statesman, Winston Churchill. I will close with a timeless message from an American statesman, Thomas Jefferson. "The price of liberty," he said, "is eternal vigilance."

The vigilance of the United States and the European Union produced tremendous progress in the 20th century - conquering national socialism, communism, and defeatism; creating a framework for peace and security; and spreading prosperity and democratic values throughout the world. But there is no guarantee this progress will continue uninterrupted in the century ahead. We must remain vigilant in tending to our relationship, while simultaneously promoting our fundamental values.

By pursuing this hopeful vision - and by modernizing it based on hard-learned lessons - we can set a course of peace and prosperity for the Euro-Atlantic community and the global system - not just for a year or two, but for decades to come.

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