



# USTR NEWS

## UNITED STATES TRADE REPRESENTATIVE

[www.ustr.gov](http://www.ustr.gov)

Washington, D.C. 20508

202-395-3230

**For Immediate Release**

June 27, 2016

**Contact:**

Roya Stephens

[RStephens@ustr.eop.gov](mailto:RStephens@ustr.eop.gov)

### **Remarks by Ambassador Michael Froman at the Bretton Woods Committee Annual Meeting**

*Washington, D.C.*

*June 27, 2016*

*\*As Delivered\**

Thank you, Bill. It's an honor to be here talking about the importance of U.S. leadership in the world. I think the title of the previous discussion "Multilateral Cooperation in a Turbulent World" seems to be particularly timely at the moment.

In many parts of the global economy, growth is uneven or weak. In China, the progress on reform seems uncertain. Russia and Brazil continue to face serious headwinds. In Europe, between the migrant crisis, the lingering effects of the financial crisis, the rise of Euro-skepticism and now that vote by the British people to leave the European Union, these are turbulent times indeed.

One of the greatest concerns we have is that in the last couple of years, global trade has slowed. Rather than driving global growth, trade is growing at a slower pace than the economy as a whole. "A revival of international trade is indispensable if full employment is to be achieved in a peaceful world and with standards of living which will permit the realization of man's reasonable hopes." Those are not my words, those are the words of Henry Morgenthau at the end of the Bretton Woods Conference, but those words resonate again today.

Here at home, we've been growing for the longest uninterrupted period in recorded history and are doing so at the high end of the spectrum for industrialized economies. Over the last six years, we've added 14 million new jobs and cut unemployment from 10% to under 5%.

Manufacturing output is at an all-time high, and we've marked our sixth consecutive year of net manufacturing job growth, the longest uninterrupted streak since the 1960s, adding

over 850,000 manufacturing jobs to the U.S. economy. And wages finally began to tick up 2.5% last year and seem to be on the same track thus far this year. Again, too little and too slowly, but at least it's a positive trend.

Still, there is a great deal of anxiety out there, evident in the current election dynamic in the United States, not to mention in much of the developed world. Some of that is certainly rooted in economics.

Between the changing composition of jobs in the United States, 15 years of wage stagnation and rising income inequality, there's a concern that the system may be working for a few, but not the many; that the game is rigged; and that other countries don't follow the same rules we do but instead act unfairly; that the economic recovery of the last six or seven years hasn't found its way to many Americans.

It is important that we not ignore these concerns. They are real and legitimate. The question is what to do about them.

Most economists will tell you that automation has more to do with the changing nature of the workforce and the suppression of wages than globalization, but certainly both contribute.

The problem is that we don't get to vote on automation. Nobody votes on the next generation of computers, nobody votes on whether the next generation of robots should be deployed.

Nor do we really get to vote on globalization. It's a process made possible by the containerization of shipping, the spread of broadband, and the opening of economies like China and Eastern Europe that used to be closed to the world and are now integrated into the global economy. Globalization is a force; you can't wish it away or put the genie back in the bottle.

But what we do get to vote on are free trade agreements. So they become the vessel into which people pour their legitimate anxieties about the changing nature of the workforce, wage stagnation and income inequality. They become the magnets of concern for a much broader and largely unrelated set of factors.

Trade agreements aren't the cause of the problems I've alluded to – they can be part of the solution to them, along with other sound economic and domestic policies, such as investment in infrastructure, education and training.

Trade agreements allow us to *shape* globalization to our advantage. They are the vehicle through which we help write the rules of the road for the global trading system which reflect our interests and our values.

We start from the fact that the U.S. already has one of the world's most open economies in the world, in large part because of decisions made decades ago - and supported by 12

president since, six of whom happen to be Democrats and six of whom happen to be Republicans. Our average applied tariff is less than 1.5 percent, and we don't use regulations as a disguised barrier to trade.

But when we look abroad, we see markets that are shielded by higher tariffs and opaque and slanted regulatory systems. With the Trans-Pacific Partnership, we can level the playing field by removing barriers to those markets, raise standards in them and, as a result, increase our export-related jobs, which pay 18% more on average than non-export related jobs.

Right now, we compete with low-wage countries all over the world. The question is what we're going to do about it.

TPP will open some of the largest and fastest growing markets to our manufactured goods, agricultural products and services exports. It will for the first time take a comprehensive approach to imposing disciplines on state-owned enterprises so that when they to compete with our private firms, they do so on a fair and level playing field. It for the first time takes on the issues of the digital economy, the free flow of data, pushing back against digital protectionism to maintain an Internet that is open and free. It has the strongest ever labor and environmental provisions, strengthening workers' rights and protecting the environment – and does so in a manner that is fully enforceable.

But all of these provisions underscore that there is something broader at issue in whether and when TPP moves forward: it's the rules-based system itself.

No group of people understands the importance of the rules-based system better than this one. The principles of open markets, shared responsibility and shared benefits animated the Bretton Woods Conference delegates 72 years ago.

The rules-based system put in place then allowed Japan and countries throughout Europe to rebuild themselves after the war. It has allowed developing countries like South Korea and Brazil to become emerging economies. It has helped lift hundreds of millions of people out of poverty.

As successful as it's been, we can't take that system for granted. We cannot be complacent about it or expect it to endure if we turn inward, because there are alternatives being promoted — alternatives that are more statist, more mercantilist in nature.

From our perspective, it's very important that we maintain and strengthen the rules-based system, where every country has certain rights, where all countries are expected to play by the same set of rules and, if they don't, where there is fair and equitable resolution of disputes, where big countries can't push little ones around.

That system is key to maintaining a stable and prosperous Asia-Pacific region. It is also key to ensuring that the global economy is working for our workers, farmers, ranchers

and businesses. And it is critically important that we're not just sitting on the sidelines but proactively shaping the global economy in a way that reflects our interests and our values.

If the United States were to turn inward, the results would be economically devastating. History has proven beyond a doubt that protectionism doesn't work.

Raising tariffs on our trading partners would not only violate the rules-based system, but lead those countries to respond in kind and block our exports. That is a trade war, and we know that no one wins a trade war. Turning to protectionism would not increase employment here; it would reduce it. It would not boost economic growth; it would retard it at best and drive the economy into recession at worst.

We know this from experience. In 1930, Congress passed and President Herbert Hoover signed the Smoot-Hawley Tariff Act, which essentially walled off the United States from imports. The thinking was that that would lead to a resurgence of manufacturing and employment in the United States. We had a spectacular trade surplus then – and the Great Depression.

Not only did the high tariffs worsen the Great Depression in the United States; they contributed to the decline of the global economy, which led in turn to the rise of nationalism in Europe.

The economic stakes of isolationism are clear, but so are the strategic stakes. Rejecting TPP would undermine U.S. leadership, not only in the Asia Pacific region, but around the world.

Our allies around the world could not help but question whether we had the wherewithal to make good on our commitments. As Singapore Prime Minister Lee put it, “if you are not prepared to deal when it comes to cars and services and agriculture, can we depend on you when it comes to security and military arrangements?”

The good news is that, as I meet with Members of Congress, they are increasingly appreciating the benefits of the agreement to their constituents – as well as the costs of not ratifying it this year.

The costs of delay are high. We already see our market share in priority products eroded by other countries that already have preferential access to key markets. The Peterson Institute has estimated a one-year delay in putting TPP into effect would impose a \$94 billion cost on the U.S. economy. That equates to about a \$700 tax on every American household.

Moreover, if we don't get it done soon, the other Asia-Pacific countries aren't going to sit around and wait for us. As New Zealand's Prime Minister John Key said, “These economies aren't going to stand still . . . Beijing will step in to fill the void.”

The negotiations of RCEP, China's TPP equivalent, are well underway, with a major push to get it done this year. And not surprisingly, it doesn't raise labor and environmental standards; it doesn't impose disciplines on SOEs; it doesn't require the free flow of data across borders and a free and open Internet; and it doesn't strengthen intellectual property rights protections.

I always ask the opponents of TPP a simple question: Do they think we're better off living in a world where those are the rules of the road? Because the choice isn't between TPP and the status quo; it's between TPP and what is likely to evolve in the absence of TPP. That cannot be more in the interests of American workers, farmers, ranchers and businesses than moving ahead with TPP.

Pierre Mendes-France, the minister who represented France at Bretton Woods, said, "To govern is to choose." Today our government has a choice.

We can write the rules of the road for 40 percent of the global economy or we can leave that job to others, whose values and interests don't necessarily align with ours.

We can move forward with TPP, or we can walk away and be remembered as the generation that inflicted a crippling wound on America's leadership in the Asia Pacific region and around the world.

China is executing on its strategy: RCEP, the One Belt-One Road Initiative, the Asia Infrastructure Investment Bank and other regional policies.

We are one vote away from cementing our leadership in the Asia-Pacific region or ceding that role to others. It's just that simple.

That doesn't strike me as a difficult choice.

Before I stop, I'd like to say a few words about T-TIP in the aftermath of the vote in the UK.

The people of the United Kingdom have made their choice. Our relationships with the UK will remain special, and our relationship with the EU will remain strong and enduring.

We are evaluating the effect of Brexit on the T-TIP negotiations. The economic and strategic rationale for T-TIP remains strong. We've made a lot of progress on the agreement during the last eight months, and our goal remains to continue working with the EU to conclude an ambitious, comprehensive and high standard agreement this year.

To do so, we're going to need a creative, pragmatic approach to resolve the outstanding issues, not ideology.

The Europeans have had a lot on their plate – the Brexit vote, the migrant crisis, the rise of skepticism about Brussels and other difficult issues. We sympathize and we hope they can summon the needed focus and political will to get this done.

Indeed, there is more at stake now than ever, given the questions that are being raised about the nature and future of the European Union. Can the EU deliver for its people? Can it take the bold actions necessary to promote the kinds of growth and jobs clearly being demanded across Europe, and create the future opportunities its young people, in particular, need to thrive? Will the EU be able to play a leadership role in defending the open, rules-based system, raising the standards for the global economy?

It is very much in the interest of the United States that we have the strongest possible Europe as a partner, outwardly facing, capable of working together with us to pursue our shared interests and values. That is certainly true in the economic arena; it is equally true across a range of security, transnational and strategic matters.

Turbulence is often unavoidable. The question is how we manage it. There's a great deal at stake in the answer to that question. Over the years, there's been no more important voice for the responsible management of turbulence than the Bretton Woods Committee, and I look forward to working with you through this important period.

Thanks very much.

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