The Future Global Trading System
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This is a particularly difficult time to be giving this speech. The economy is uncertain. Recovery is uncertain, and thanks to the events of two days ago, our politics are uncertain as well. I'll discuss that a bit, but for the most part I will take refuge in my favorite place – the long term – because, despite the immediate confusion, there are trends afoot that allow us to draw some conclusions about the major international challenges our country faces and, hopefully, how to tackle them.

Almost exactly two years ago when I addressed this issue, I said that the factors that define the global economic system are the rapid and widespread dissemination of technology and the growth of global supply chains and global capital markets. Taken together they will narrow the gap between the U.S. and others.

Despite significant setbacks since then, I believe that statement is truer now than it ever was.

Advances in technology drive globalization. Technology speeds everything up. Communication is virtually instantaneous. Technology milestones pass by more and more quickly.

That brings everything -- commerce, people, conflict -- closer together. In trade, I illustrate this by pointing out that more than half the cut flowers sold in this country every day are imported from overseas, which would have been unthinkable even 30 years ago. There's a company in North Carolina that catches flounder off the Atlantic Coast and sells it fresh every day -- in Tokyo. Banks transfer capital all over the world – or did – with a few clicks of the mouse. This is not going to change so long as the capabilities for it remain.

Equally important, technology is a great leveler. As it speeds production and shrinks space, the opportunity for more people – good guys and bad guys -- to operate globally and acquire new technologies grows rapidly. That makes the world a more complicated place because the same globalization that brings the world together for economic growth and prosperity is also leaving millions of people behind in the competitiveness race as well as making dangerous technologies more accessible to people who wish us ill. If everything is made everywhere, how do we control it for security purposes, and what do we do about those places that might not have a comparative advantage in anything?

Just as the growth of commerce in the last century brought about the decline of states' rights versus federal authority, globalization will bring about a decline in nations' rights and at the expense of supranational and transnational entities and transnational problems – environment, health pandemics, financial crises – that will need new institutional structures or reform of the old ones. We've learned in the past two years that construction of those entities is more difficult than anyone imagined because crisis propels an everyone for himself mentality. But we will get there, if only because we must. The problems are too big for a single nation, even us, to solve. The G-20 Ministers' agreement in Korea two weeks ago is a promising start, although there are clearly gaps to be filled.

In the process we are transitioning to a new, "non-polar" era. Some states may be preeminent by virtue of size, but their influence over others will be limited. The gap between the US and everyone else will continue to narrow, not because we are declining, but because others are catching up. That means that the United States, which for years has been the linchpin of the global economic system for strategic as well as economic reasons, will be less able or willing to make sacrifices for the good of the system because our domestic politics will not permit it

Looking forward

We have learned over the past two years that the wheels can come off the train, but at the end of the day we are unlikely to go permanently in reverse.

One thing we should learn from history is that it is hard to "uninvent" things. If capabilities exist, a way will be found to exploit them. Flows of goods and capital may slow and, for a time, even stop, perhaps for a long time, but we are beyond the point where the pathways themselves will vanish.

So, the best description, ironically, comes from Lenin: two steps forward, one step backward, and occasionally the reverse. There are retreats, but each time we end up on a higher, or at least a faster, level.

As that occurs, the winners will be those who work harder and run faster, which means innovate faster. If we want to maintain the capability gap between ourselves and others, outpacing them is essential. Trying to hold them back doesn't work very well.

The optimistic scenario is that global supply chains will expand again; trade will grow even if we never sign another trade agreement. The Doha Round will eventually succeed at some level if only because no one wants to admit failure. The benefits of trade liberalization over time are clear. Countries that are globally engaged grow and countries that are not, stagnate.

Whether countries are prepared to act in their own interest on trade policy, however, is an open question, both here and in developing countries.

That is because globalization has turned out to be a force for both stability and instability as it simultaneously pushes countries to conform to market principles and to Western norms of rule of law yet at the same time rides roughshod over deeply ingrained cultural values, exacerbates growing problems of income inequality, exploitation of workers, women, and children, and contributes to environmental degradation and resource depletion.

We have seen much more focus on the costs of globalization than on the benefits in the Congress and in the recent campaign. The Obama Administration itself has contributed to that, both by its campaign rhetoric and by its inaction on trade policy.

This may well get worse in the short run because **learning to live with limits is a painful lesson.**

1) Growing demand for resources, particularly energy, will continue to lead to price spikes and periodic shortages, which in turn could slow growth, contribute to inflation, and become the source of future conflicts. A current lesson there is the rare earth episode with the Chinese, which reflects textbook monopolistic behavior on their part. Although they've backed down, their message is clear – they're not reluctant to use t heir economic power for political leverage.

2) Continued sparring over environmental degradation will preoccupy the multilateral process. The rich countries showed signs of getting religion on the subject, although they now appear willing to sacrifice the environment to jobs in the current economy. The poor countries continue to view it as a plot to hold back their industrial growth. All of us continue to cling to the fantasy that we can clean up the environment and solve global warming without compromising economic growth or significantly changing our lifestyles.

3) We are attempting to get a grip on capital markets to prevent some of the excesses of the past, but there is resistance, and it is too soon to say how it will turn out.

These limitations will affect countries differently.

1. **Rich countries.** Aside from the United States, major developed countries, particularly in Europe, will over the long term face the challenge of relevance in a world where they are declining in importance numerically, economically and politically. One of the challenges of our multilateral institutions will be to recognize that and rebalance political weight in favor of the rising countries. Europe and Japan, in particular, will face the challenge of demography – declining populations that will limit future growth and which is not offset by the tradition of immigration that we have. Right now it appears the U.S. will dodge that bullet.

2. **The United States** will be in a better position but must cope with the psychological and economic impact of waning preeminence and, in the short term, the risk of Japanese-like sustained low economic growth, and the growing economic gap between the top and the bottom in our society. That will mean continued policy battles over trade policy and protection, and over immigration. Regardless of the outcome of those battles we are likely to continue to lose manufacturing jobs while improving productivity, as we have for the past 40 years.

3. **The real story of the first part of the 21st century will be the rise of the BRIC countries.** One wag suggested that in the future Brazil will be the world's farm, China the world's factory, and India the world's office. That is wrong from many perspectives, but it is dead on its acknowledgement of how quickly these economies have grown – after years of somnolence – and how important they will be to global economic growth.

4. **We are now faced with integrating them into the global system in a way that is win-win for everybody.** So far that has been a hard sell as each seems determined to "even the score" after years of what they perceive as Western exploitation. They refuse to accommodate our concerns and demand more from us at the very time we have less to give. This has been

most obvious in the Doha Round negotiations and most absurd in the climate change talks, where their position is that the developed countries got us into this mess, and we're not going to let them hold back our growth. This is an elegant way of saying that it is now their turn to be as stupid as we have been, but it does not bode well for the future of the negotiations.

So, what do we do about all this?

The answer lies in focusing on the things that are under our control, not anyone else's. We can choose the right tax, trade and immigration policies that encourage foreign investment and make the United States a welcoming place to visit, live and work. We can choose to improve our educational system and create a 21^{st} Century workforce. We can choose to address the massive imbalances in our trade and current accounts.

Most important, we can concentrate on what has always been our strength – innovation. The United States has consistently invented, designed, created, and brought new products and technologies to market faster than anybody else. It is our strength, and in a global supply chain world, it is our comparative advantage. We have generally done it in the private sector, but the government for more than 100 years has provided critical support in key areas – first agriculture, then communications and aerospace. It's fallen into disfavor in recent years, but we do, in fact, pick winners and losers – not companies so much as technologies – and we do it well.

Unfortunately, we have not done a good job of creating metrics for measuring success in innovation, particularly as it relates to trade. When Apple sells an iPhone, it produces a spike in our trade deficit even though most of the economic value of its production and sale is in the United States. Intellectual property assets, in particular, are difficult to value on a good day in America and nearly impossible to value in a global marketplace where these rights are viewed with suspicion or intense skepticism. We need a better understanding of both the role that intellectual property plays in defining and ensuring value is delivered for innovation, and in the role of many U.S.-based companies as managers of global supply chains.

The NFTC is playing a leading role on both fronts. Our Global Innovation Forum brings together companies, academics, NGOs and labor to build awareness on the importance of a rules-based economy, from intellectual property rules to mechanisms for technology transfer to data protection, rules that govern the free flow of information to standards for technology development and operability. The NFTC is also launching a project on global supply chains designed to inform the political debate on trade by helping people understand the way trade is actually conducted in the 21^{st} century.

Promoting our comparative advantage in innovation and supply chains will require a change of tactics. Given our difficulties with the BRIC countries, exemplified by the obvious difficulties of the Doha Round, we should be constructing "coalitions of the willing" on a sectoral or regional basis rather than relying on increasingly difficult multilateral negotiations. The Administration has already begun that in the Anti-Counterfeiting Trade Agreement (ACTA) and the Transpacific Partnership (TPP) negotiations, and it would make sense to do it in the green goods and services sector as well as the broader area of innovation generally. Smaller groups allow us to construct agreements among those that have the most to gain from them, instead of the inevitable least common denominator product that comes out of a larger group. These agreements also provide continued liberalization in important markets and advance thresholds for other agreements negotiated around the world to which the U.S. may or may not be a party. Ironing out the details on complex issues like intellectual property protection among like-minded parties will make global negotiations more efficient, as the United States will enter the global talks with partners and a unified message.

It is important that the United States recognize the obvious: our trading partners will act according to their own self-interest, not ours. Our aim must be to engage globally and seek out partners who recognize the value of an open, rules-based economy. Building support for globalization will require all of us to place renewed emphasis on old ideas: openness, transparency, accountability and competition. Trade is not a zero-sum game for the United States. Indeed, success of the U.S. economy as a producer of innovation and a manager of global supply chains demands global participation, both in sourcing talent and resources from around the world and in selling to the 95% of the world's consumers who live outside of the United States.

Our challenge is to recognize globalization's differing effects on communities, to ensure strong institutions are in place to adequately support continued integration and to recognize what we can and cannot control. While globalization creates numerous challenges it also enables the solutions. Despite the short-term politics of trade, the long term evolution of global economies will create more opportunities, both for the United States and for our trading partners around the world.