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It is a pleasure to be here. I appreciate the opportunity to discuss the politics of international economic law.

Many accept globalization with a dour note of resignation. Like the common cold, they wish it could be avoided -- accepting it only because they see it as inevitable.

But, I think Harvard Professor Jeffrey Frieden had it right when he said:

> Globalization is a choice, not a fact. It is a choice made by governments that consciously decide to reduce barriers to trade and investment.
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> National policies and relations among national governments are the sources of globalization and determine its staying power.

That staying power is being tested, and will continue to be tested for the foreseeable future. In the face of these tests, we must reaffirm our support for an open and integrated global economy.

The problems facing our financial sectors today have brought to light some economic as well as political cracks in the system.We will get through these difficulties. We will learn important lessons and make adjustments. We will fill the cracks.

In the end, governments will choose globalization because – quite simply -- globalization serves our common interests. The world is a better place today as a result of our economic integration. Since renewing our commitment to global markets in the 1940s, technology and economic openness have allowed standards of living to rise steadily in the developed world, and poverty rates to drop significantly in the developing world.

The unprecedented empowerment of the individual has been the great historical mark of the past 50 years. Innovation and democracy have been the handmaidens of this global trend. The automobile, the airplane, the telephone and the internet are just some of the technologies that have enabled unprecedented levels of personal freedom.

The steady march of rights-based democracies is the other source of empowerment. In the past 30 years alone, the number of democracies in the world has doubled, allowing more people greater control over their lives and livelihoods.

As we sort through the current financial crisis, we must not lose sight of the tremendous benefits of a global economy. We must resist fearful calls to impose barriers to trade and investment. History has shown that protectionism does not protect. It destroys.

In 1930, the U.S. Congress passed the Smoot-Hawley bill, significantly raising import tariffs. The legislation spectacularly served its intended purpose – to curb imports. Unfortunately, it also curbed exports on which many U.S. jobs relied. As other nations responded with their own protectionist measures, a severe economic downturn quickly turned into a global depression.

I am confident that the economies of the world today will avoid the mistakes of the last century. But, in the face of growing attacks on the legitimacy of the global trading system, it is not enough simply to avoid past mistakes.

Three affirmative steps must be taken to strengthen the legitimacy of globalization:

<u>First</u>, we must be more effective advocates.

The politics of trade are difficult because too many people continue to view the global economic pie as fixed. They believe that the global economy is zero-sum – that one country's gains must come at another's expense. This is wrong.

An opinion piece last year by economist Steven Landsburg began profoundly – if not somewhat cheekily – in the following way:

> Modern humans first emerged about 100,000 years ago. For the next 99,800 years or so, not much happened.
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> There were wars, political intrigue, the invention of agriculture, but none of this stuff had much effect on the quality of people's lives. Almost everyone lived just above a subsistence level.

Life during these years was, in the words of Thomas Hobbes, "nasty, brutish and short."

Then – just a couple hundred years ago – people started seeing changes in their daily lives. Per capita income began to grow at unprecedented rates. The primary source of these gains was technological progress. Innovation has allowed the global economic pie to grow exponentially. We no longer live in the zero-sum world of our first 99,800 years. As defenders of globalization, we must make this point more often and effectively.

<u>Second</u>, we must assure that the benefits of globalization are broadly shared.

The global economic system is not sustainable if large segments of the population believe that it does not serve their interests. For this reason, evidence of rising income inequality in developed and developing countries is directly relevant to the debate over globalization.

Many so-called “studies” on income inequality are polemics that carefully select data to draw pre-conceived conclusions. But <u>some</u> incident of rising inequality does seem to be occurring in many countries. Public perceptions of income inequality are closely tied to public views of globalization and, therefore, must be addressed.

If significant numbers of people believe that globalization works for a handful of lawyers, bankers and engineers who may thrive in a global economy, but does not work for the average person, the legitimacy – and in turn the viability – of the global economy will be severely tested.

In general, the benefits of a global economy have been shared widely. Since 1980, the number of “globalized workers” – that is, those who are somehow plugged into the global economy -- has quadrupled. This is significant because the standards of living available to workers who are part of global commerce are significantly higher than those who are not. But more can be done to bring more people in developing countries into the global economy, especially through more open trade and investment. And more can be done in developed countries to help those whose livelihoods are threatened by global competition.

The social safety net must be strong without inviting moral hazard. And because a good education is so crucial in today’s competitive workplace, we have a duty to assure access to good, life-long educational opportunities.

One of the great strengths of the modern economy is its flexibility. Human and financial capital is reallocated constantly to maximize productivity. Some of the largest and fast – growing employers today did not even exist 20 years ago. But this constant churning is also a great source of anxiety.

A significant political challenge for the next decade will be to identify and adopt public policies that preserve the benefits of economic dynamism while responding to the anxiety it creates. The dynamism of the modern economy is its great strength. Maintaining this dynamism is the surest path to broad-based economic growth.

<u>Third</u>, we must strengthen institutions underpinning the global economy.

The World Bank and others have produced many studies connecting rule of law and economic openness to broad-based economic growth. Last year, the World Bank released a major study measuring the wealth of nations. The authors sought to better understand the sources of wealth in many countries. They expected to find natural resources or manufacturing capacity to be the primary sources of wealth for most countries. Instead, they found that “human capital and the value of institutions (as measured by rule of law) constitute the largest share of wealth in virtually all countries.”

Rule of law is critical to economic development. It is especially critical to broad-based economic development. A 2004 study published in the *Journal of Economic Literature* found that the benefits of improved openness and rule of law accrue mostly to the poorest members of society. This makes sense. In an economy with weak rule of law, the wealthy have the economic and political resources to navigate an opaque or corrupt system. It is the poor who stand the most to gain from the fairness inherent in a transparent economy with strong rule of law.

A major focus of domestic economic reform in developing countries should be strengthening rule of law. Global, regional and bilateral trade agreements can also play a critical role in strengthening rule of law. The rules-based trading system, embodied in the World Trade Organization (WTO), is a tremendous tool for strengthening rule of law.

In order to accede to the WTO, a country must undertake extensive domestic reforms to open its economy. Over the past decade, WTO accessions by China, Vietnam and Ukraine have provided opportunities for significantly strengthening rule of law and transparency in those countries. Russia's WTO accession, when completed, will hopefully serve this same goal.

Bilateral trade agreements also can spur economic reform and stronger rule of law. Far beyond the tariff-cutting benefits of trade agreements, many U.S. trade partners have sought bilateral agreements as tools for "locking in" domestic economic reform.

Institutional strengthening is particularly important with regard to regulatory systems. Regulatory agencies today must pursue their missions in a global context that likely did not exist when the agency was created.

The current financial crisis has generated calls for greater global coordination among financial regulators. This will be a primary focus of the leaders at the G-20 Summit this weekend.

There is a tremendous need for broader communication among non-financial regulators as well. A primary goal of such dialogue should be to curb the use of regulations as tools of protectionism. Every sovereign has the right, indeed the responsibility, to protect the health and welfare of its citizens. But too often regulatory regimes are being used inappropriately to impose non-tariff barriers. The "spaghetti bowl" of regulations is far more pernicious and burdensome on well-meaning global companies than the "spaghetti bowl" of trade agreements that some have criticized.

We also must find ways to encourage regulators, where appropriate, to recognize the work of their peer regulators in other countries. Global institutions must be strengthened -- politically and technically – to assist domestic regulators achieve these goals.

Last century, the expansion of local markets to national markets spurred demands for national governance and accountability. This century, the growth of national markets into global markets is spurring demand for global governance and accountability.

We should use the current calls for better global governance of financial regulation as an opportunity to seek better global governance and accountability in other regulatory areas as well.

In the face of economic challenges and political headwinds with regard to global trade, we have three choices.

We can retreat from the world.  Given our experience with protectionism last century, I expect few will want to choose this path.

We can stand still, embracing neither protectionism nor further liberalization.  This is the path of least resistance.  But, it is not a path without danger.  Trade liberalization, like the proverbial bicycle, can falter without forward progress.

Or, we can muster the energy to continue the long march of breaking down barriers to trade and investment.  This is not the path of political expediency.  But it is the path to proven prosperity.  It is the path I believe we should take.

Thank you.