Unfair Trading Practices Against the United States: Intellectual Property Rights Infringement, Property Expropriation, and Other Barriers

Testimony of the Honorable Grant D. Aldonas before the Committee on Foreign Affairs, U.S. House of Representatives July 19, 2012

Madame Chairman, Ranking Member Berman, and Members of the Committee, it is a privilege to be with you to discuss the foreign unfair trade practices and barriers to trade that U.S. firms and U.S. workers confront in the global economy. I applaud your interest in the topic and your commitment to confront the challenges we face in the trade arena and in our foreign economic policy generally.

My basic argument is straightforward. Over the past several years, we have witnessed an increase in foreign policies and practices that are inimical to our trade interests and undercut our prospects for economic recovery, growth, and full employment. While seemingly expedient in the short run, those practices also undercut the growth potential of the countries adopting them and limit the prospects for global economic growth in the process.

That logic applies with still greater force to those practices that undermine intellectual property rights or compel U.S. companies to transfer their technology as a condition of market access. Innovation drives productivity, which ultimately yields stronger economic growth. By diminishing the return on the investments that U.S. companies make in research and development, such practices eventually lead to less investment in innovation and less growth, both in the United States and globally.

In other words, confronting the unfair trade practices on which the Committee's hearing focuses is not simply a question of defending U.S. interests. It is critical to restoring global economic growth, fostering a more dynamic global economy, and delivering a more broadly shared prosperity, particularly to those who live at the bottom of the economic pyramid.

The importance of rolling back these practices is particularly acute for the world's poor. As Nobel Laureate Amartya Sen put it in his seminal work, *Development as Freedom*, all prosperity ultimately flows from expanding individual freedom and improving the capacity of individuals to exercise it.[1]

In many of our discussions of human rights, we tend to draw fine distinctions between political and economic freedom. But, the reality, as Sen points out, is that freedom is ultimately indivisible. In the absence of economic freedom and the wherewithal to exercise one's political rights, no person is, in fact, free.

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[1] Amartya Sen, *Development as Freedom* (1999).

Government intervention in markets, limits on consumer choice, diminished opportunity for private investment and entrepreneurship erode the scope of individual freedom and undermine the rule of law. In other words, wholly apart from their economic importance at a time of slow economic recovery and high unemployment in the United States, the policies and practices governments use to distort markets in favor of their producers come at a price in terms of values our foreign policy should be designed to vindicate.

There are also important strategic, as well as economic, consequences that flow from failing to confront the policies and practices that are inimical to our trade interests and global economic growth. Most pointedly, in terms of our national security, our economic vitality translates directly into the ability to project power. Slow growth and limited economic opportunity limits our ability pay for America's global reach. In that sense, allowing trade policies and practices that limit our growth to fester could prove as critical to our national security as any technological advance in military platforms or investments in human capital or troop readiness.

But, the more profound strategic reason for confronting these practices is that our failure to do so will result in a far less dynamic U.S. economy, which will inevitably weaken the moral solvency of the example we set as a free society.

The following discussion is designed to provide some context for the Committee in terms of the growing use of unfair trade practices abroad before highlighting a number of the practices that present the greatest challenge to U.S. firms and U.S. workers. It then assesses whether we have the tools needed, either under U.S. international law, to address the policies and practices our companies and workers face. Finally, it discusses what our negotiating agenda should look like if we are to create an international system that rewards innovation and private investment, rather than proximity to political power.

Trade Policy and Economic Recovery

Expanding opportunities for trade forms a critical component of any sound strategy for restoring economic growth and creating employment, both at home and abroad. In the short term, for example, expanding trade pays dividends by stimulating production and hiring to fill export orders to growing markets when our economy slows.

But, the longer-term effects of liberalizing trade are far more profound. In the long run, economic growth depends entirely on our ability to raise our productivity. Trade allows for specialization, which permits us to focus on what we do best and trade for the rest. By allowing us to move toward our comparative advantage, liberalizing trade and the competition it encourages lifts our productivity and, ultimately, our standard of living.[2]

Conversely, protectionism, in its various forms, represents the worst possible policy response to an economic downturn. Analysis by the Organization for Economic Development and Cooperation ("OECD") emphasizes that, of all potentially policy responses it examined –

> dollar for dollar, direct trade restricting measures have the most strongly negative impacts on growth and employment: a one dollar increase in tariff revenues results in a USD 2.16 drop in world exports and a USD 0.73 drop in world income.[3]

One of the great lessons of the inter-war years and the Great Depression is the extent to which protectionist trade policies can exacerbate an economic slump. Many expected a sharp increase in protectionism when both U.S. and global trade fell sharply in 2009 – 12.5 percent off its previous peak – in response to the disruption and uncertainty created by the financial crisis, a collapse in demand, and the difficulty of securing trade finance. [4]

To a large extent, at least at the outset of the financial crisis and the recession, we thankfully avoided the mistakes of the 1920s and 1930s. We did not see a resort to conventional protectionist measures as a response to the downturn caused by the financial crisis of 2008. Some G-20 countries, notably Russia, did impose direct restraints on imports. Russia seized on the opportunity the financial crisis and recession offered to impose higher tariffs on automobiles, trucks, combine harvesters, soy meal, and selected dairy products, all products that represent significant export opportunities for U.S. producers.

But, the overall impact of those protectionist measures was muted, amounting to no more than 1 percent of world imports.[5] That is due, in part, to President Bush's efforts to rally the G-20 countries against as resort to protection at the onset of the global downturn. At President Bush's urging, G-20 leaders signed a pledge in November, 2008, to avoid protectionist measures in response to the global downturn, reflecting a shared commitment to "refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports." [6]

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[2] L. Alan Winters, *Trade Liberalization and Economic Performance: An Overview* (2004).

[3] OECD, Trade Policy and the Economic Crisis (May, 2010) 5.

[4] OECD, *Trade, Policy and the Economic Crisis* (May, 2010) 1.

[5] Ibid.

[6] G-20 Leaders Declaration (November, 2008) at para. 13.

A greater share of the credit, however, goes to the combined effect of commitments made within the framework of the World Trade Organization ("WTO") and under the network of bilateral free trade agreements ("FTA") with our largest trading partners. One measure of that effect is average tariff levels. Since the inception of the WTO's predecessor – the General Agreement on Tariffs and Trade or "GATT", average tariffs have fallen among most industrialized countries from 15 to 4 percent.[7] While tariffs in many major developing economies remained high until the late 1980s, they have fallen sharply since.[8] At the same time, by virtue of the North American Free Trade Agreement ("NAFTA"), tariffs imposed on U.S. exports by our two largest trading partners – Mexico and Canada – have fallen to zero.

Just as important as the decline in tariff levels, both the WTO and our bilateral FTAs contain rules that inhibit our trading partners from resorting to protectionist measures that flatly violate their commitments under those agreements. Even with respect to China, the Office of the United States Trade Representative ("USTR") has generally succeeded when it has brought actions against Chinese violations of the WTO, both in the litigation under WTO rules and in securing China's eventual compliance.[9]

The Incipient Rise of a "New Protectionism" and the Competition of Economic Models

What the discussion above highlights is that, at least at the outset of the financial crisis and global downturn, the basic framework of binding commitments against trade restrictive measures held. But, what we have seen, instead, as the global economy has lurched from one crisis to the next, is the steady growth of unfair trade practices that either fall short of full compliance with the existing global rules or are designed to evade those rules.

In my view, this "new protectionism" is not simply a trade policy response to the slow global recovery. It reflects a deeper challenge. We are, in fact, engaged globally in an unacknowledged competition of economic models – a competition between the market and the state.

Not so long ago, it was almost universally assumed that government should seize the commanding heights of the economy. That assumption was based on a misunderstanding of the causes of the Great Depression, the success of government planning industrial organization in support of the U.S. war effort in World War II, and, most importantly, the rise of the Soviet Union as an alternative model of economic organization.

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[7] International Monetary Fund ("IMF"), *Trade and the Crisis – Protect or Recover?* (April, 2010) 6.

[8] Brazil's average tariff, for example, fell from 51 percent in 1987 to a current 12 percent rate and India's average tariff has fallen from 71 percent in 1994 to 13 percent today. Ibid.

[9] See, e.g., USTR, *Dispute Settlement Update* (January, 2011) (detailing USTR's success in various WTO cases against China, including dispute settlement proceedings on intellectual property rights and trading rights for films and other audiovisual products.

Even while fighting the Cold War, many countries in the West, the United States included, adopted an economic model of far greater government involvement in the economy than was wise or warranted. French dirigiste policies and the platform of the British Labor Party both reflect that trend. That same model permeated the countries of the developing world that were emerging from colonialism to independence. Argentina's experience with Juan Peron's statism and India's reliance on Fabian socialism under Nehru offer prominent examples.

The United States did not escape the prevailing orthodoxy either. The federal government, for example, tightly controlled transportation, with the Civil Aeronautics Board making decisions even about the menus that U.S. airlines would serve on domestic flights. We also experimented with wage and price controls as recently as the late 1970s in an effort to control inflation. That, of course, failed. It left us with "stagflation" (both high unemployment and high inflation) by the end of that decade.

As you know, the state's position at the commanding heights of the economy faltered as an economic model in the late 1960s and 1970s precisely because government's control of the commanding heights of the economy failed to deliver the strong economic growth and full employment that its advocates promised. That led in the late 1970s and early 1980s to a reinvigorated defense of free markets, principally by Margaret Thatcher in the United Kingdom and President Reagan here at home. The success of their efforts in reinvigorating the U.K. and U.S. economies also put an end to the argument that Western notions of freedom, both economic and political, were in decline, while alternative models based on far heavier state control were in the ascendancy.

The 1980s debt crisis and the success of Chile as a counterpoint drove a similar rethinking of the model in Latin America. In Asia, China's pivot toward the market signaled a rethinking of the model even among socialist states. And, finally, the fall of the Soviet Union, which represented the apotheosis of state control of the economy, marked what many thought was a definitive end to the only alternative to free market capitalism.

Events, however, have a way of confounding expectations. The pendulum soon started to swing back toward greater state control. Over the course of the 1990s, the austerity imposed by the IMF and the inability of existing political elites in Latin America to cope with the adjustment required by financial markets led to the rise of populist figures like Chavez in Venezuela. The Asian financial crisis in the 1990s highlighted for many economic policymakers the risk of liberalization, particularly of their capital accounts, in the absence of stronger institutions underpinning the market.

Equally, for many critics of capitalism, the 2000 high tech bubble, the ensuing U.S. recession, coupled with the accounting scandals that followed, called into question the efficacy of the free market model. The 2008 financial crisis gave that process much greater momentum and tarnished the U.S. brand as the leading example and advocate in favor of free markets and free choice, as opposed to state control. Those who had resisted the trend toward free market capitalism, both here and abroad, felt the financial crisis confirmed their worst fears.

The resulting movement toward re-regulating markets and reinserting the state into the market was not confined to finance and, equally important, it has its own champions. What we have seen in the past four years has been the rise of China, not simply as an economic competitor for investment and employment, but as a model of reinvigorated state capitalism. Chinese policies like "indigenous innovation," that are intended to force Chinese state-owned companies up the global value chain, rather than obliging them to earn their way, are now in vogue elsewhere. Following China's lead, for example, Brazil has returned to its previous practices of imposing constraints on investment and capital flows, even while it maintained relatively high barriers to trade in high technology goods and services.

The point is that we are once again engaged in a competition of economic models, but without any strategic thought as to what that means for our national security and economic well-being or how we should approach that challenge from the perspective of our domestic and foreign policies. In my view, the Committee would be wise to think of the array of unfair trade practices that our firms and workers confront in that context, rather than thinking of them simply as "one off" measures affecting particular goods or services.

As I highlighted at the outset, those policies and practices – and the economic model that they represent – are not only inimical to American interests; they are fundamentally at odds with a vision of a global market economy in which individuals can shape their own economic future, just as they are inconsistent with the goal of restoring economic growth and a more broadly shared prosperity, both at home and abroad.

The New Protectionism in Action

Examples of the new protectionism are rife. Given the relatively clear WTO commitments barring increases in tariffs, many of the policies or practices that foreign countries have imposed involved so-called "non-tariff measures," such as tightening of licensing requirements, taking "safeguard measures" or imposing export restrictions. In addition, what American firms have faced is the growing popularity among developing countries of bringing antidumping actions against imports of U.S. goods, particularly China and India (developing countries accounted for almost 80 percent of all antidumping actions initiated in the year following the onset of the financial crisis).[10]

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[10] OECD, *Trade, Policy and the Economic Crisis* (May, 2010) 1.

The rise in antidumping actions in China and India is not new, but it has accelerated. Those actions often focus on U.S. firms like Corning, which outcompetes its Chinese competition on the basis of its technology. The Chinese dumping action was designed to offset that advantage. The implications for U.S. competitiveness more broadly are obvious – the policies and practices reflected in China's approach to antidumping undermine the investments that U.S. manufacturing companies make in their technology, which allows them to remain a step ahead of their competition in global markets.

Another measure on the rise involves "buy national" policies. As governments have expended significant sums on economic stimulus, they have often attached provisions, just as we did here in the United States, that would require the funds be used to buy local goods and services or to give local goods and services a preference in procurement bids. The major difference here is that the United States is a member of the WTO Agreement on Government Procurement ("GPA"), which limits the extent to which we can resort to such policies without legal repercussions in the WTO. Most developing countries, particularly large emerging competitors like Brazil, China and South Africa, are not GPA members, which leaves them free to discriminate against U.S. goods and services in public procurement as they see fit.

The new protectionism also embraces a number of policies that expressly designed to negate the competitive edge that American firms and workers have based on their technology. While it is not the only country to engage in such practices, China is the paradigmatic example due both to its economic success and the score of its intervention in the market on behalf of Chinese firms.

In a valuable recent report, Robert Atkinson of the Innovation and Information Technology Foundation ("ITIF") detailed the various practices that make up the Chinese model of intervention on behalf of Chinese firms. As a part of what Rob refers to as "innovation mercantilism," China pegs its currency to the dollar to avoid any appreciation that would allow greater imports from the U.S. or reduced Chinese exports to the U.S. market and provides distinct tax advantages to Chinese exporters.[11] It attempts to force U.S. companies to give up their technology as a condition of access to the Chinese market, whether through exports or investment.[12] The Chinese government heavily subsidizes its industry through preferential loans, tax breaks, and investment incentives, such as free land and energy.[13] China not only tolerates an extraordinarily high volume of intellectual property theft, it also maintains a discriminatory patent system designed to encourage or force the diffusion of technology developed by U.S. firms.[14] In

[11] Robert Atkinson, Enough is Enough: Confronting Chinese Innovation Mercantilism (2012). In the interests of full disclosure to the Committee, I am a member of the ITIF's Board of Directors.
[12] Ibid.
[13] Ibid.
[14] Ibid.

addition, China has made a practice of limiting exports of critical materials like rare earth minerals, which have the effect of denying U.S. firms access to key inputs.[15]

Another pernicious feature of the Chinese system is the disturbing trend toward theft of intellectual property and trade secrets through cybercrime. Economic and industrial espionage and the theft of U.S. intellectual property represent serious threats to U.S. national security and our competitiveness in the global economy. In security terms, such actions erode the technological advantage that U.S. defense forces hold over potential adversaries and expose U.S. command and control systems to attack. In economic terms, American firms and American workers compete in a knowledge driven global economy, where commercial success depends on innovation.

Agencies from the International Trade Commission to the intelligence community universally agree that China is, by far, the most significant source of economic and industrial espionage targeting U.S. agencies, U.S. firms, U.S. academic institutions, and individual Americans. China is also the source of the vast majority of counterfeit and pirated goods entering the stream of global commerce.

The U.S. International Trade Commission estimated ("ITC") that, in 2009, U.S. firms lost $48.2 billion in sales, royalties, or license fees to Chinese IPR violations. In 2012, U.S. Customs and Border Protection seized $125 million worth of counterfeit and pirated goods originating in China, which accounted for 62 percent of all seizures, making China the leading exporter of fakes to the U.S. market. An industry group, the Business Software Alliance, estimated that, in 2010, the commercial value of pirated software in China exceeds $7.7 billion.

As significant as those numbers are, they understate the gravity of the threat. The ITC's estimate, based on reports by U.S. firms, relates only to their direct losses in 2009; it does not measure the broader impact that Chinese IPR violations have on the firm's profitability and capacity for future innovation.

Economic and industrial espionage can take a number of forms other than surveillance and outright theft. The range from unsolicited requests for information via personal contacts, telephone, and e-mail to the pursuit of business relationships for the purpose of acquiring sensitive or classified information or technology to proposals for joint research between academics.

That said, the growth of the threat today largely flows through cyberspace. According to a recent report by the U.S. National Counterintelligence Executive, foreign intelligence services, foreign companies and individuals ramped up their efforts in 2009-2011 to steal classified and/or proprietary technologies by tapping the computer networks of U.S. government agencies, private companies,

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[15] Ibid.

universities, and other institutions.[16]

The National Counterintelligence 's report fingers China as the "world's most active and persistent" perpetrator of economic espionage. The record of Justice Department prosecutions under the Economic Espionage Act reinforce that conclusion – of the seven prosecutions in 2010, six involved a link to China.[17]

The threat will grow over the next several years due to the proliferation of portable devices that connect to the Internet and other networks, which create new opportunities for espionage. Cyber-espionage will also take advantage of the trend toward cloud computing, with its pooling of information processing and storage.

The Rise of State Owned Enterprises

Another feature of the Chinese system that bears emphasis is the prevalence of state-owned enterprises. State-owned enterprises ("SOEs") are fundamentally incompatible with free enterprise. There is no practical or meaningful way of differentiating the interests of the SOE from those of the state. I am deeply skeptical of the ability of the existing WTO rules on SOEs to encourage greater openness by SOEs precisely because neither the enterprise nor the state has any interest in operating under the competitive conditions the market otherwise imposes.

In that regard, China's SOEs reflect a broader phenomenon. All SOEs are insulated from the capital market pressures that force private enterprises to be profit maximizing and customer focused. They are also immune from the business and legal risks that private firms face every day, which not only impose costs, but shape investment and operational decisions. The SOEs are, furthermore, rarely subject to the same transaction costs as other firms (e.g., inside knowledge of government decisions that often shape commercial opportunities, to pick what may be the most benign example).

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[16] The collection efforts focused on information and communications technology (i.e., the backbone of many other technologies of interest to China); military technologies, particularly marine systems, unmanned aerial vehicles (UAVs), and other aerospace/ aeronautic technologies; civilian and dual-use technologies in sectors likely to experience fast growth, such as clean energy and health care/pharmaceuticals; and business information relating to supplies of scarce natural resources or that provides foreign actors an edge in negotiations with US businesses or the US Government.

[17] To get a flavor of the challenge Chinese practices represent, one of those prosecutions highlights the nature of the problem Dongfan Chung was an engineer with Rockwell and Boeing who worked on the B-1 bomber, space shuttle, and other projects. He was sentenced in early 2010 to 15 years in prison for economic espionage on behalf of the Chinese aviation industry. At the time of his arrest, he had 250,000 pages of sensitive documents in his house, which represents a fraction of what Chung passed to his handlers between 1979 and 2006. The information found at Chung's home filled four large filing cabinets – all of which would fit an inexpensive compact disc or thumb drive or, if Chung had tapped directly into his employer's computers, could have been sent via the Internet. Reports by U.S. agencies and firms of a recent onslaught of computer network attacks strong suggest that economic and industrial espionage have shifted in that direction.

In addition, SOEs, by definition, restrain competition. There is virtually no possibility for new market entrants, given the political advantages the SOEs hold and the economies of scale from which they benefit by virtue of what is often a state monopoly in their given industry. The net effect is to impede innovation and the creative destruction that is essential to the constant regeneration and advance that is the soul of the free enterprise system. Killing innovation, of course, limits economic growth, not just in the home country of the SOE, but in the United States and globally.

Finally, the SOEs' nexus to the state encourages unproductive rent-seeking, rather than entrepreneurship, innovation and customer focus, as a way of succeeding commercially. This differs from the restraints the SOEs' existence imposes on competition because the negative impact of their rent-seeking behavior extends beyond their own market.

The problem is that rewards of rent seeking by SOEs (i.e., lobbying for benefits from the government) are highly visible. Their success in culling benefits from consumers and taxpayers relatively quickly becomes the organizing principle and operating paradigm of the entire economy, if left unrestrained. Rent-seeking, whether here or there, tends to beget more rent-seeking precisely because it skews in the incentives in the system and what entrepreneurial talent exists is devoted to the activities that garner the highest return – i.e., finding new ways to gouge more from the public, rather than being forced to innovate for the benefit of consumers in the marketplace.

Nowhere is the growth of SOEs – Chinese and others – more evident than in the energy sector. While it is convenient to criticize American oil companies based on their size and assume they have substantial influence over energy prices, the reality is that ExxonMobil, which on any given day is the largest private firm in the world by market capitalization and a variety of other measures, no longer ranks in the top 20 energy firms in the world. Three separate Chinese SOEs do.

The three Chinese SOEs at the top of the global league tables in energy are not alone. Obviously, Saudi Aramco and Russian firms like Rosneft and Gazprom play an outsized role in energy markets as well. What that suggests is that, left unaddressed, the increasing rise of SOEs in countries like China is not simply a trade problem. It portends a time when our energy policy will be set in Beijing or Riyadh or Moscow, rather than in the United States.

The Spread of the New Protectionism

While China offers a paradigmatic example and serves as role model for other countries inclined to follow its example of "state capitalism," it is far from the only source of the new protectionism and the practices elsewhere are more varied. Here, Brazil's policies and practices are important. Brazil, for many years, adhered to the basic economic philosophy of Raul Prebisch, which leaned in the direction of economic autarky. The utter failure of that approach left Brazil with little alternative in the 1990s but to move in the direction of liberalizing its market in order to bring down inflation, halt the decay and erosion of Brazilian industry, and to repay the massive foreign debts its government had contracted over the previous two decades.

That liberalization, combined with the rise of new markets like China for Brazilian agricultural exports, worked. It put Brazil on the path toward far stronger economic growth and financial stability. But, much of Brazil's old trade regime remained in place, including relatively high tariff walls to encourage companies to invest in Brazil, rather than entering the market via exports, and domestic content requirements that, in the case of U.S. firms like our automakers Ford and General Motors, have the effect of forcing production to shift to Brazil from the United States.

While the WTO Agreement on the Trade Related Investment Measures ("TRIMs") limits Brazil's ability to return fully to the practices it once used, Brazilian officials have turned instead to the use of conditions on financing as a means of ensuring the same result – a significant preference for the use of Brazilian domestic content in any good produced for the Brazilian market.

Another example is the return in Argentina, Ecuador and Venezuela of expropriation as tool of government policy. The most recent instances have taken place in Argentina, where President Fernandez de Kirchner ordered the expropriation of all of the Spanish energy firm Repsol's investment in YPF, an Argentine energy producer.

The ostensible reason for the expropriation was Kirchner's claim that YPF had failed to invest sufficiently to develop Argentina's energy resources and that nationalization was in pursuit of Argentine "hydrocarbon self-sufficiency." In fact, the reason for the lack of investment was that the Kirchner government's imposition of price controls on energy as a means of avoiding the consequences of its broader economic policies had made it completely unprofitable to invest in further production, despite the discovery of a major shale gas formation in the Vaca Muerta basin that would potentially give Argentina the third largest recoverable natural gas reserves in the world.

The analogy to previous Argentine experience is obvious. The return of Peronist practices that had turned Argentina into an economic basket case in the 1980s suggests a dim future for Argentina. That dim future has important implications for U.S. firms and U.S. workers. American firms that are both heavy exporters to the Argentine market and significant investors (U.S. firms account for most of the country's investment in oilseed processing, a major source of Argentine exports) are concerned about the implications of the Kirchner government's moves against Repsol. More troubling is that all of U.S. trade could suffer further if the Argentine moves create an incentive for further retaliation by Spain or the European

Union, which are significant markets for American firms' exports from Argentina.

The new protectionism also has indirect effects for U.S. interests. For example, despite the ties that Ecuador shares with Colombia as a result of their membership in the Andean Community, Ecuador imposed direct restraints on imports of 1,346 Colombian products as a means of offsetting the depreciation of the Colombian peso. The products subject to Ecuadoran "safeguards" represent more than one-third of Ecuadoran imports from Colombia as recently as 2008.

Those restraints have serious implications for Colombian producers, who had previously had to contend with an overvalued peso in terms of their competitiveness. But, we are now in a free trade relationship with Colombia. Actions by Ecuador that damage the Colombian economy have significant implications for the success of the U.S.-Colombia FTA to the extent that they diminish the prospects of Colombian growth and U.S. export sales under the newly implemented trade agreement.

What the examples highlight is the folly of the new protectionism. As I noted at the outset, protectionist practices and policies that distort trade and investment incentives may seem expedient in the short run, particularly in the face of slowing economies caught up in the ongoing global economic crisis. But, they invariably lead to far more damaging consequences.

The most immediate consequences come from the likelihood that these policies and practices lead to retaliation. That potentially leads to the same sort of vicious circle we saw in the 1930s, when the instinct to raise tariffs to encourage production and save jobs, led to accelerating rounds of trade protection that ultimately exacerbated the Great Depression and led to less economic activity and less employment, rather than more.

The longer terms consequences, however, are far worse, as I indicated at the outset. What policymakers, particularly in countries like China, Brazil and Argentina tend to forget is that their recent success in the global economy has largely flowed from their adoption of institutions like private property and the enforceability of contracts that underpin a market based economy and offer confidence to local entrepreneurs to create local businesses that generate employment as well as meeting local consumer needs.

The new protectionism, by contrast, almost invariably involves some diminution of those rights and a weakening of those institutions. That means slower economic progress over the long term. In other words, while the protectionist policies and practices certainly harm U.S. interests, they also prove self-defeating for the countries adopting them.

A concerted effort by the United States to confront those policies and practices is manifestly in our own economic interest. But, I would submit that our effort to ensure that we challenge those policies and practices as part of the broader effort to vindicate the economic model of individual freedom and equality of opportunity that the American experiment should represent is just as important in terms of the global economy as our own.

Thank you. I welcome any questions you may have.